FAR EASTERN
ECONOMIC REVIEW

Vol. XIX Hongkong, December 15, 1955 No. 24

"BUYING OUT" PRIVATE ENTERPRISE IN CHINA

Foreign enterprise in China has been liquidated. Chinese private enterprise is being rapidly "transformed," and the pace has been quickened by recent decisions. Peking describes the process now being applied to native industry as that of "buying them out," a description that no doubt produces a wry smile on the face of the entrepreneur. Certainly Peking is milder and slower than was Lenin and the early Bolsheviks in dealing with the Russian bourgeoisie, but this, says Peking, was because they adopted a hostile attitude and forced the Soviet Government to deprive them swiftly of the means of production. Circumstances appear to be different in China, but Peking makes it clear that the principle of "buying out" does not involve the spending of additional money, such as compensation for property borrowed or confiscated. What the Government proposes to do is to allow the entrepreneur to retain a profit from the operation of his business for a little longer instead of seizing his business right away. This will be regarded as tantamount to compensation and will soften the blow of ultimate transformation into purely State property.

At present profits are divided into four parts: namely, taxes collected by the State; welfare funds for the workers; reserve funds for development of the enterprise (the three together accounting for more than 60%); the fourth part alone, less than a quarter of the profits, goes to the capitalist as share interest and dividend. Private enterprise, it is explained, has no alternative but to obey the State and submit to its leadership. It has put one foot across the threshold and the other must follow. Nevertheless all is not going quite smoothly. Some of the industrialists evidently fail to see the justice of the methods whereby the State acquires all the private property without anything like the methods of compensation adopted in the U.K. when certain large enterprises were nationalised. Hence "education" has to go on and the industrialists are warned they can be "masters of their own destiny" only if they make their future coincide with the future of the country. But even when their businesses are transformed the good capitalists need not fear for a job. Anyone willing to work will certainly get "a proper job" for himself.

"Some people may wonder whether there will still be the United Front after China has carried out her three five-year plans," says the People's Daily. "Of course, after the bourgeois cease to exist the basis for the United Front changes. But a union of people from different social groups and class origins under Socialist principles will still be necessary and beneficial. Since the Communists did not desert non-party people who had contributed to the democratic revolution after it was completed, why should they, after the completion of the Socialist revolution, desert those non-party people who have contributed to the cause of Socialist transformation? Why should they not make appropriate arrangements for them as regards their work and political status?"

In this connection the paper declares that the progressive elements among the bourgeoisie should be encouraged, for the transformation must be carried out not only through Governmental laws and decrees but also through the United Front. They should take the lead in accepting transformation, be the backbone in assisting the Party in this trans-

formation, and serve as a link between the Government and the industrialists and businessmen generally. It is added that these progressives so far are too few in number and are not widely distributed in various localities and trades. Nor is their "consciousness" high enough. They should not therefore be underestimated but be given a chance to do the work the party calls for, under "constant contacts" that would ensure they did not stray from the correct path. This is the only way to ensure full co-operation by all concerned. Transformation of enterprises one by one can no longer fully meet requirements. All trade must be placed under coordinated State arrangements. All important private enterprises must go over to joint State-private operation of whole trades in separate groups and stages. With combined operations and the transformation of whole trades, the original method of apportionment of profits to the capitalists according to a fixed proportion has "obviously become infeasible." The method of apportioning a fixed rate of interest to the capitalists should be introduced gradually, so that the original private shares receive an appropriate fixed rate of interest according to specific circumstances. The overall planning of the transformation is "a gigantic and complex task." In carrying it out, it is necessary to pay attention not only to making economic arrangements but also personnel arrangements, and to strengthen not only organisational preparations but also the work of publicity and education.

Apparently Peking's plan is to put the various trades first into specific grouping, put the "progressive" industrialists in charge of each trade, and funnel all orders through a central body representative of each branch of production. The transfer of machines and equipment from some factories to others has already begun. The method is not lacking in ingenuity, but apart from making business pay for its own transformation it also ends even the measure of existing autonomy in the industries and may even engulf sooner rather than later all separate identity. However, even in countries like England where "family businesses" were such a feature of commerce and industry for generations and sometimes centuries, the formation of public companies and amalgamations have made inroads into tradition.

The intentions of the Government were communicated to the second session of the Executive Committee of the All-China Federation of Industry and Commerce by its Chairman, Mr. Chen Shu-tung, whose speech was held back from publication for some weeks. The State, he said, is now transforming private industry and commerce by such new methods as overall arrangements, economic reorganization, and transformation according to trades. Together with the "upsurge of agricultural co-operation," it would intensify the efforts to forge ahead along with the development of the entire national economy. The middle forms of State Capitalism—such as processing jobs, production to fill State orders, unified purchase and underwriting of sales were the main components at the beginning, but a number of private factories still produced and sold products on their own account. But by the first half of 1955 the value of products processed for the State and ordered and bought by the State accounted for over 90% of the total output of private industry, while a number of industries passed over to the next "higher stage" of evolution. At present private factories are merged and reorganised for joint operation. Experience is thus acquired to enable private industry to pass over rapidly to State capitalism.

In the case of private commerce, wholesale merchants in general have been basically organised in cities while their employees have been absorbed by State companies, while "the vast majority of capitalists have gladly become cadres of State enterprises and now joint operation of whole trades has been introduced for some trades.

Socialist economy, said Mr. Chen, is antagonistic and contradictory to capitalist economy. Private industry and commerce cannot meet the new situation of economic development without further transformation. "There is no denying the fact that Socialist transformation of private industry and commerce means an acute struggle; the activity of our private industrialists and merchants is not the same and their conception of and attitude towards transformation are not uniform. Generally speaking, our private industrialists and merchants consist of the following types: One type includes progressive persons who understand the policy, perceive the future of the country and the world, and are willing to accept Socialist transformation wholeheartedly under the leadership of the CCP and Chairman Mao and contribute their part in practical action. As a result of continual 'education' conducted by the Party and the State among us in recent years, more and more of them are following the progressive elements and actively accepting transformation. The second type consists of persons whose knowledge of Socialist transformation is still not adequate. Aware as they are of the inevitable tendency towards Socialist transformation and of the necessity of pursuing the Socialist path, they are still unwilling to give up capitalist operation, and hoping that Capitalism and Socialism will still exist side by side without interfering with each other. The result is that their thought becomes obscure and vacillates whenever they encounter concrete problems involving their personal interests.

"While persons of this type are not against transformation and, as a matter of fact, have in many cases brought their enterprises into the orbit of State Capitalism, yet the degree of their consciousness and voluntariness and their spirit of initiative are far from being enough, with the result that now they are positive and then they are passive, wavering and irresolute. Persons of this type are numerous in our industrial and commercial circles.

"The third type consists of persons who passively resist transformation because they are not satis-

POOLING OF LAND IN CHINA

The new propaganda theme in the Soviet Union, we are told, is that "Marxism is the key to plenty." It is unlikely to be of any value, or to be used, in China for quite a long time to come, since the needs of industrialization are forcing the people to accept a new low standard of austere living. But the sensational speech of Chairman Mao Tse-tung nearly six months ago has certainly produced effects. It may be recalled that the National Congress, with every indication of smug complacency, contemplated a long and very gradual conversion of the peasants to the new collectivist ideas. Mao Tse-tung broke in upon this complacency with a dramatic and forthright speech, as the Congress adjourned, delivered at a meeting of the Party Secretaries of the Provincial, Municipal, and Area Committees. "Throughout the Chinese countryside," he said—and he did not bother to cite the evidence thereof—"a new upsurge in the Socialist mass movement is in sight. But some of our comrades are tottering along like women with bound feet, complaining that others are going too fast. They imagine that by picking on trifles, grumbling unnecessarily, worrying continuously, and putting up countless taboos and commandments, they are guiding the Socialist mass movement in the rural areas on sound lines. No, this is not the right way at all—it is wrong. The tide of social reform in the countryside—in the shape of co-operation—has already reached some places. Soon it will sweep the whole country. This is a huge Socialist revolutionary movement, which involves a rural population more than 500,000,000 strong: one which has very great world significance. We should guide this movement vigorously, warmly, and systematically, not use all sorts of means that drag it back. In such a movement some deviations are inevitable. That stands to reason. But it is not difficult to straighten them out. Weaknesses or mistakes found among cadres and peasants can be done away with if we actively assist them. Guided by the Party, the cadres and peasants are going forward; the movement is fundamentally healthy."

Undoubtedly this speech shook all the kanpu out of their complacency if not out of their wits, and as a result the Party workers are engaged in a front-line engagement to obey the call to "guide" the movement. Senior primary school and junior middle school students are stopping their academic education and being distributed in large numbers —one figure mentions 150,000—to the various rural areas to provide the illiterate peasants with bookkeepers, clerks and interpreters of the rules and regulations, the decrees and other instructions, which descend from the capital like the leaves in Vallambrosa. Before they go to the villages they have to be taught the rudiments of farm production, since too many of the kanpu sent to the "hicks" hitherto have been city lads who literally did not know "hay from a bull's foot," as the saying in England goes. They are rather disgruntled themselves at having their education stopped short before they can go to the secondary schools, and so they have to be indoctrinated anew on the national importance of their work among the peasants.

Members of the Youth League have also been distrained upon to help in this, and these bully-boys are of special value since the Chinese peasants are pretty tough and they are no fools: they know the sort of fate that is brewing for them by the doctrinaires. The teenagers have also to speed up the formation of lagging co-operatives, and when they are trained themselves they have to instruct the key personnel and act as propagandists for Peking's policy wherever it is not being properly carried out. They have to look into complaints that rich peasants are infiltrating the producer co-ops; that there are no real production schedules in the rural areas; that the method of organisation of collective labour has not been mastered; that "middle peasant" co-ops have appeared; and that there is opposition to the co-ops among the individual peasants outside the organization. There is, indeed, a multiplicity of problems which the philosophers in Peking regard as not at all a bad thing. Some of the kanpu, however, terrified by the mushrooming of co-operatives as a result of the sudden and dramatic energising of the drive by the respected head of the Government, see only defects, feel the problem is altogether too much for them and get butterflies in the stomach. At least, that is what the People's Daily says. Some of them just dodge the post altogether. Some of the kanpu will only go to the co-operatives which have few problems and where there is relatively plain sailing, and avoid the tough co-operatives like the plague. Others become blindly optimistic and fall victims to conceit and self-complacency. They see only the achievements of the co-operatives and ignore the difficulties and defects.

It is really tough that good ideologues should be stumped by such ridiculous things as an insufficiency of book-keepers—a universal lack which also includes the shortage of the abacus. So they have tried to get over this one by selecting a group of students who appear "plausible enough" for training in that art, or science, and arrange emergency training for them. Thus more than 500 of these youngsters are in training in 40 hsiang of one county alone to ensure that proper books are kept. Not only the Youth League but also the demobilised members of the army veterans are being called on to help in these matters.

All the printed work has been done. The draft Model Regulations for operating the Agricultural Producer Co-operatives have gone through the various official mills and been distributed to the whole country for discussion and acceptance. They muster some 24 foolscap, closely typed pages in a dozen chapters, and for a vast peasantry who have always subsisted by word of mouth instead of by the written word it is a revolution indeed. The Chinese Premier, in his covering Notification, was a model of brevity; five brief paragraphs as compared with 12 verbose chapters constituting the regulations proper. But then Mr. Chou En-lai is no expert on agriculture, though for a Communist he has had to live for quite a long time out on the land—without, of course, pursuing purely farming occupations!

A mere glance at these comprehensive and detailed regulations indicates how formidable is the new element that has entered the life of the "organised" farmer in immemorial China. Perhaps it errs on the side of excessive detail, but

---

fied with it. Since the announcement of the general task, they have withdrawn their capital, operated their business passively, and, even if their enterprises have been placed under joint public-private management, they still adhered to the capitalist idea of operation, disregarding the interest of the State and the people and being interested only in profit-making. . . There are also counter-revolutionaries among them who put up a firm resistance to transformation and remain hostile to the 'people'."

every effort is made to ensure clarity. For instance, the disposition of draft animals has an article all to itself. It says, in one paragraph, that "in the case of young animals begotten of the draft animals owned privately by members and kept by the co-operative, either the benefits may be divided between the co-operative and the owner or else the young animals may belong completely to the owner or completely to the co-operative. Methods of disposal should be discussed and decided upon according to local custom." That sounds broad enough but one can see the friction bound to arise in the event of a local difference of opinion.

Much is made of the principle of voluntariness both in the People's Daily and in other papers' comment on the regulations, and on the inviolability of the principle of mutual benefit, and indeed there will be more trouble than enough if they are ignored. But the Party has its own technique for this as for all other revolutionary changes. Previously it was the landlord who was the scapegoat and the target for the artificially fostered wrath of the peasants. Now the "rich" peasant is to play the same role, and the "poor" and "middle" peasants will be mobilised to kick him where it hurts most. This in spite of the fact that the kulaki whom Stalin had to slaughter or to send to the wastes of Siberia were in fact the best farmers of all—that is why they did become rich or kulaki.

The orders now are that there must be 1,300,000 producer co-operatives by next spring's sowing. By now the target should have been reached, judging by the incontinent pace set in the rural areas after Chairman Mao's uncompromising and challenging speech on July 31. But there was a similar spate of co-operatives a couple of years ago after Liu Shao-chi had passed the word down through all the echelons of the Party. The trouble was that the kanpu passed the buck to the mutual aid teams, and the mutual aid teams formed their producer co-operatives only on paper and never pushed them ahead to the point of real functioning. They had no book-keepers anyway! No co-operative can operate properly unless there is a detailed and effective accounting all the way through to the division of profits.

But the drive still comes from the top where they regard the detailed problems lightly. The kanpu have made many mistakes? Well, said Chairman Mao, education will correct them. Reprimands do no good. "We must guide the movement boldly, not act like one fearing the dragon ahead and the tiger behind"—which is excellent advice in its way but a little tough on the poor little isolated kanpu who carries the burden of Sisyphus and of destiny on his frail shoulders and has some reason to be fearful of the angry and often quite contemptuous farmer. Chairman Mao's own solution of the problem is to send into the countryside large groups of kanpu with short-term training—the work team principle so beloved of the Communists—and put them in charge of the co-operatives in an ostensibly advisory capacity. Where the Party Panjandrums are a bit wrong is in their insistence that it is they and not the peasants who lag behind, and when they say that "the leadership should never lag behind the mass movement," they are confusing the wish for the fact. But in spite of all the doubts which do exist among the Party men the drive is still powerful enough from the centre to ensure that the movement for collectivization goes ahead and does not stagnate, though what the upshot of it all will be remains to be seen.

MONEY, BANKING AND THE STOCK EXCHANGE IN HONGKONG

By Professor E. Stuart Kirby

CURRENCY

The British Crown Colony of Hongkong was established in 1841. For 90 years thereafter it existed primarily, or almost solely, for the purpose of entrepot trade with China. Monetary and banking arrangements were devised to suit Chinese usages, and meet the requirements of this situation. The currency in China was then silver, in many different forms: bullion or ingots (e.g. conventional shoe-shaped sycee), the tael (a weight, as unit of account) and various coins, such as Maria Theresa dollars, Indian rupees, Spanish dollars, Mexican dollars, etc. In the mid-nineteenth century, almost anything served. By about 1920, China was minting its own silver dollars (yuan), and largely using "Mexican" dollar coins (Mex.$), many of them specially made for use in China, together with Chinese subsidiary coins of base metal (cash).

Until 1935, silver was the currency of Hongkong. Until 1862, sterling was the official unit of account, but the basis of transactions was the variety of silver coins mentioned above, handled in terms of their silver content. In 1866-8 a "British silver dollar" was issued by the Hongkong Government, but was unsuccessful. "Mex. dollars" and "cash" continued to circulate right up to 1935.

Local banknotes became increasingly important from about 1864 onwards, but only standard silver coins were legal tender until 1935, though the unit of account was the "H.K.$". The sharp and constant fluctuations, on the background of a heavy long-term decline in the value of silver, came to a final crisis in 1934-5, with an extreme drain of silver; and China turned (Nov. 1935) from a silver standard to a managed paper currency. Hongkong followed suit at once.

The Hongkong Dollar Currency Notes Ordinance No. 42 of November 1935 authorised the Hongkong Government to issue one-dollar notes, to be legal tender, and to be backed by silver and by a current account in the Hongkong and Shanghai Bank. The Currency Ordinance No. 54 of December 1935 ordered the surrender of silver to the Government, in return for legal tender banknotes. The Government gave the banks certificates of indebtedness for the silver they surrendered, and with the latter established an "Exchange Fund", consisting in practice of sterling and sterling securities. To the public, in exchange for silver surrendered, the Government gave one-dollar Government notes, or banknotes (of commercial banks) of higher denominations. Silver was formally demonetised in 1937.

This is still the currency system of Hongkong. There are Government token coins (50 cents, 10c and 5c) and Government one-dollar (= 100c) bills, backed by deposits in the Hongkong and Shanghai Bank (itself a large holder of sterling assets) and by sterling investments. There are, in

higher denominations ($5, 10, 100 and 500—$1 and $50 banknotes have not been issued for a long time) the banknotes of certain British private banks, which are legal tender and are backed by sterling securities (directly, or through Government "certificates of indebtedness"). Hongkong's currency is thus de jure a managed currency on a sterling-exchange standard, but de facto is identical with other British colonial monetary systems.

BANKING

There is no Central Bank in Hongkong. The Hongkong and Shanghai Bank (as noted above) partly fulfils that function, as "the Government's Bank". It is one of the three Banks of Issue in the Colony, as designated by the Bank Note Issue Ordinance No. 2 of 1895; it issues some 95% of the banknote circulation of the Colony, which totalled H.K.$727 million in June 1955. The other two are also private commercial banks, viz. the Chartered Bank of India, Australia and China (issuing 4 to 5% of the remainder), and the Mercantile Bank of India (issuing only ½ to 1% of the banknote currency of Hongkong). Besides the banknotes mentioned above, the currency issue outstanding includes about H.K.$27 million in Government one-dollar notes, and about H.K.$16 million in subsidiary coin. The local Clearing House has 51 members, with clearings averaging HK$1,115 million per month in 1954. There are 94 licensed banks (no institution may engage in banking without a licence from the Governor in Council, payment of a registration fee of HK$5,000, regular publication of balance sheet, etc.). Since World War II, Hongkong has largely succeeded to the position formerly held by Shanghai in Far Eastern and worldwide trade, finance, exchanges, and manufactures.

FOREIGN EXCHANGES: HOLDINGS AND TRANSFERS ABROAD

Since 1935, the value of the H.K.$ has been kept at 1s/3d sterling (with very small fractional variations either way in bankers' practice). The Colony has been part of the Sterling Area since August 1941, and Exchange Control has operated under the Defence (Finance) Regulations of 1940, on the same lines as in the U.K., but with some modifications allowing for Hongkong's special position. The Colony is one of the Scheduled Territories of the United Kingdom's exchange control system.

The modifications referred to are in respect of the following features. Hongkong exists mainly by entrepot trade (though rapid and striking industrialisation has occurred in recent years, some 30% of the Colony's exports now consisting of local manufactures). Hongkong is a centre also for remittances and transfers between all parts of Southern Asia (particularly for the Overseas Chinese). Hongkong, in the postwar period, has become a main centre for insurance business (particularly marine and merchandise insurance) for the whole Indian Ocean and Western Pacific area. In recent years, further, a certain amount of "hot money" (flight capital, etc., from Asian countries) has been from time to time in the Colony. One aspect is that up to one quarter or one third of the Hongkong currency issue has sometimes, in recent years, been held abroad, according to unofficial estimates. Remittance and transfer business, on all these accounts, is a main feature of Hongkong's activities.

Of the 94 licensed incorporated banks, 27 are authorised to deal in foreign exchange generally, and some in certain prescribed currencies. Those authorised to deal generally are the following: The Hongkong and Shanghai Banking Corp., The Chartered Bank of India, Australia and China, The Mercantile Bank of India, Ltd., Thomas Cook and Son Ltd., The National City Bank of New York, The American Express Co. Inc., Banque de l'Indochine, Banque Belge pour l'Etranger, Netherlands Trading Society, Nationale Handelsbank N.V., The Bank of East Asia Ltd., Oversea-Chinese Banking Corporation, Bank of Communications, Bank of China, The Bank of Canton Ltd., Shanghai Commercial Bank, Ltd., Chinese Postal Remittances and Savings Bank, The China and South Sea Bank Ltd., The Farmers' Bank of China, The Central Trust of China, The Bank of Kwangsi, Ltd., Young Brothers Banking Corp., Kincheng Banking Corporation, The National Commercial and Savings Bank, The United Commercial Bank Ltd., Bank of Tokyo, United Chinese Bank.

The following are authorised to deal only in the currencies indicated: Sze Hai Tung Banking and Insurance Co. Ltd. (Singapore and Siam), The China State Bank (Siam only), Hongkong and Swatow Commercial Bank Ltd. (Siam only), Bangkok Bank (Siam only), Bank of Korea (U.S.$ and S. Korea only), Wing On Bank (resident sterling), The Kwangtung Provincial Bank (Singapore and Siam), National Commercial Bank (resident sterling and Siam only).

It will be noted that many of these are branches of international banking concerns. In addition, there are numerous Chinese banks, which handle overseas remittances, also money-changing establishments. The volume of overseas remittances to China is believed—in an entirely unofficial estimate—to run at somewhere around H.K.$30 million (or £2 million) per month.

The situation in Hongkong is entirely different from the rest of the sterling area, in that there is a recognised (or tolerated) open market in Gold, U.S. dollars, and other currencies, operating side by side with the official market. At present the official rate for the U.S. dollar is only 1-2% above the open market rate.

It is the present policy of the Bank of England to encourage foreign investment in the Sterling Area and as such official exchange is always given to remit reasonable profits and dividends. Capital repatriation, dependent on certain circumstances, also would normally be allowed.

Whereas there is no Exchange limit to the amount of capital that can be brought into Hongkong, the overseas investor will undoubtedly be concerned with the question of remittance of profits and possibly some assurance that he can, if he so desires, repatriate capital. Profits, dividends or even capital repatriation can always be remitted through the open market; the question of approval of official exchange for these purposes, however, depends on several factors, the main consideration being whether the capital was brought into Hongkong through the official or open market. If the official market was originally used, then, in accordance with normal Sterling Area practice, official exchange will be allowed for the remittance of reasonable profits and dividends. Capital repatriation within the limits of the original capital, dependent on the merits of the applications, would normally be approved. No guarantee is given that official exchange would be allowed for any remittances if the capital had been brought in through open market channels. If, however, factory plant etc. were purchased in Hongkong and the Colony was generally deriving benefit from the investment then sympathetic consideration would be given.

No forms are required by the Exchange Controller to bring capital to Hongkong or to commence a business of any nature in the Colony other than one dealing in banking or gold. Requests for remittances to Non-Scheduled Territories are submitted through Banks on simple application forms. At a later date, however, if it is required to effect remittances through official channels, then evidence must be produced to the Control of the method of bringing the

WHAT ARE FILIPINOS LIKE?

By Leon Ma. Guerrero

Nothing is so difficult as self-appraisal, and to answer the question in the title of this article I thought it best to start by asking it. With no particular pattern in mind, I asked a number of foreign friends to give me their impression of the Filipino.

I was told that we were friendly, good-natured, loyal, idealistic, sentimental, socially gracious ("even the lower classes"), unwilling to accept responsibility, lacking in self-reliance, less hardworking than the Chinese, more intelligent than the Malays, imitative but less so than the Japanese, religious but not so mystical as the Indians, and, in general, the most adaptable of all the races in the Orient.

A Spaniard thought we were very like the Spanish; an American thought we were not American enough. A Frenchman remarked we were the only people in Asia with a sense of humor, at least the only ones who could laugh at themselves, which, when one thinks of it, was probably the prettiest compliment of all.

By way of contrast, our fellow Asians had a uniform tendency to laugh at us. A Siamese said we were pretentious. An Indonesian, in much the same vein, deplored our tendency to accept western standards at their face value. A Chinese thought we were improvident. An Indian was shocked by the cheapness in which human life was held by a people that could kill for a few centavos, a political argument, or a girl's ruffled feelings.

The history of the Philippines might well be read in these national characteristics. There is, to start with, a relatively simple explanation for our notorious lack of self-reliance, which seems to be the main burden of compliment against us these days. For more than four centuries of colonial rule, we were not allowed to rely on ourselves. Colonialism also suggests the reason for a certain unwillingness to accept responsibility; for too long in our history, it was not accompanied by any real authority.

Of all foreign peoples, the Americans find it hardest to understand this, possibly because the thirteen colonies which grew into the United States of America were self-reliant from the start. The Protestant Anglo-Saxons who began the stupendous march across the American continent at the riverheads of the Atlantic seaboard, belonged to the same race as the people of the British metropolis. They were in fact the same people. There was consequently no "foreign" government in the American colonies; beneath the forms of royal authority, the settlers were ruled by a government they could truthfully regard as their own, and in which they had a "native-born" right to participate.

It is significant that "native-born" is still considered by numerous Americans as a complimentary adjective, suggesting a certain superiority over, say, immigrants from eastern or southern Europe. In the Philippines, on the other hand, the word "native" has an unfavorable connotation; it keeps a disagreeable flavor of inferiority, reminiscent of the Spanish "indio," or of early Americans who were ostracized for marrying Filipino women and "going native."

The minor difference indicates the greater one. During the four centuries of colonial rule in the Philippines, the government was "foreign," the exclusive prerogative of a superior class, the special privilege of an alien race. Obviously the Filipinos could not consider such a government their own; they could not identify themselves with it; it was a thing apart, and more than that, a thing to be regarded with suspicion, hostility, even hatred.

The "government" did everything; it was responsible for everything; but it was not responsible to the people. On the contrary, the people were responsible to it, for taxes, forced labor, conscription, and all the varied catalogue of colonial duties, with no right to expect anything in return. The hard lessons drawn from the experience of many generations must now be unlearned, if the Filipinos are to develop

---

original capital into Hongkong. In addition, properly audited balance sheets must accompany any application for official exchange for remittance of profits etc.

Hongkong is a Free Port, only a few minor and revenue duties being levied. But the United Nations restrictions on strategic goods strictly apply at present. Export controls are almost solely on this account, and are on COCOM lines. The proceeds of all normal and authorised export transactions, in any currency, are retained by the exporter.

Subject to certain restrictions foreign exchange is usually granted for all imports for use within the Colony and for goods for re-export or direct shipment provided satisfactory evidence is produced from the country of destination that the import is approved in the case of a Scheduled Territory and that foreign exchange has been approved in the case of Non-Scheduled Territories.

Imports from the American Account Area countries and South Korea are generally financed in U.S. dollars and imports from Canada in U.S. or Canadian dollars. All these imports are normally financed through the local open U.S. dollar market, except certain essential imports for which official exchange is granted. In such cases special arrangements must be made with the Exchange Control and the Department of Commerce and Industry because approval is given only in very exceptional circumstances.

Imports from the Transferable Account Area are normally financed in Transferable Sterling or a Specified Currency. In the case of Cambodia, Laos, Vietnam, Indonesia, China, Formosa, and Macao, finance is usually arranged in Hongkong dollars, with no Exchange Control formalities for the three latter countries if the finance is in Hongkong currency. In the case of Thailand finance is arranged in Sterling or Hongkong dollars.

STOCK EXCHANGE

A well organised Stock Exchange exists in Hongkong. Dealings are principally in local securities (real estate, public utilities, local industrials, trading and banking companies etc., and the few local Government bonds). The smaller investor or casual participant is well served; but it may be remarked that, in respect of larger or market-affecting transactions, local business financing is characterised by the close and wide interlocking of major directorates, effectively preventing any disequilibrating tendencies, above the degree of speculation normal for a large entrepot community.

Hongkong has excellent warehousing and handling facilities, and necessarily operates on large merchandise inventories; but its business life is remarkably stable, owing to its sound currency, good administration, minimal taxation and regulation, and the experience and repute of its business community.

civic consciousness, a sense of participation in the government, and a sense of responsibility for the welfare of the country.

The establishment of an independent Filipino government was the fundamental prerequisite for the growth of true self-reliance. Nationalism had to be the mother of democracy.

That the Filipino leaders of the campaign for independence were more perceptive than their American opponents, who made democracy or the demonstrated capacity to run a "stable government" the prerequisite for independence, is amply shown by the maturity so rapidly attained in the short years since the 4th of July 1946.

The successful use of the issue of graft and corruption by both parties, by the Liberals in 1946 and by the Nacionalistas in 1951, suggests a profound change in the climate of public opinion. No longer do the great majority of Filipinos tend to condone cheating the government, as something "foreign" and oppressive that deserves to be cheated. With independence, the feeling has grown that public funds are actually the money of the people, and stealing from the treasury is just as much stealing as picking pockets.

What makes this new attitude of moral disapproval particularly remarkable is that, immediately before independence, it had been patriotic to cheat the government of the Japanese occupation forces, all the way from the payment of street-car fares to selling military supplies, stealing them back at night and re-selling them all over again the next morning.

Indeed the brazen and brutal selfishness of the Japanese taught the Filipinos anew the old lessons about "foreign" government that a more subtle American domination had tended to obscure. Tariff inequalities and immigration restrictions were vague generalities compared with the ruthless confiscation of rice at highway checkpoints, or even the acquisitive soldier snatching at a wristwatch.

But if independence was the indispensable prerequisite for self-reliance, it is not the only factor to be considered. To hark back to the contrast with the American colonies, the pioneers who opened up the prairies were working for themselves. The early Filipinos were scarcely in the same position, and the easiest way to understand it is to remember that we were known to the Spaniards as Indios.

It is to the credit of the encomenderos, to whom literally the bodies and souls of their subjects were entrusted, that unlike the Americans they did not kill off their "Indians," but worked them; many times to the point of death, it is true, but not quite. But if any profitable contrasts in self-reliance are to be made, they should be drawn surely between the Filipino "Indian" and the American "Indian" and not between us and the descendants of the American conquistadores.

On that basis, we Filipinos would come off rather well, whether the credit be given to some natural vitality in our race or to the moral scruples, military inefficiency, or economic shortsightedness of the Spanish.

But to chide us with the accomplishments of the hardy American pioneers is scarcely fair. They had every economic incentive for self-improvement and self-reliance, especially after the British connection had been severed.

In the Philippines, the encomendero system, which laid the foundations for a feudal economy, was further abetted by a government monopoly of overseas trade, which reduced the isolated archipelago to complete dependence on the metropolis. The American imposition of "free trade," which was actually a tariff wall continuing the monopoly of the Philippine economy by a foreign metropolis, only confirmed the habits engendered by the Acapulco galleons.

Ironically enough, the Filipinos discovered that they could survive their own resources only during the extremity of the Japanese occupation and the consequent American blockade. We then became self-reliant because we had to, and it is possible that the only way we shall finally achieve economic independence is to be driven to it by stark necessity.

There is, however, another aspect of self-reliance which has nothing to do with colonialism and its remnants. When some Americans say that we lack it, they are thinking of our family system. They cannot understand why grown-up sons and daughters keep living with their parents even after they have married and begotten children of their own, or why we should feel under obligation to feed and house even the most distant "cousins" who find themselves in want.

This trait is not exclusively Filipino; it is common to most of Asia; and it is, I daresay, common to all rudimentary societies. Modern man looks to his government for security, but where the government, whether native or foreign, is still regarded as an alien, selfish force, the individual prefers to trust his bloodkin for what are in effect old-age pensions or unemployment insurance. The family is an indispensable institution in these circumstances, and one cannot be too sure that people are happier where it has been supplanted by the state as the center of society.

Our adaptability or imitativeness is, like our family system, largely self-protective. Colonial peoples quickly learn to adapt themselves to foreign ways. The penalty is, at the very least, a kick in the behind. The reward, on the other hand, is a little more rice on the plate. So in the colonial Philippines, the man who could speak Spanish or English, who knew enough not to eat with his hands, or who could affect a foreign-cut jacket, had a reasonably better chance to get a job or a promotion.

That the Filipinos showed a precocious ability to imitate, and imitate to perfection, is perhaps indicated by our national male costume, which is nothing else than a shirt worn with its tails out. This seems to have been decreed by the Spaniards to make it possible to tell at first glance who was a Spaniard with the right to wear his shirt-tails properly tucked in, and who was the inferior "indio," with the obligation of flaunting them even when he was in full formals, complete to cane and tophat. It is an odd turnabout, not without a certain irony, that this badge of inferiority has been transformed into a cherished national institution, and that the white man in the tropics has actually followed suit by wearing his tails out too in the fashionable sportshirt.

Our mimetism, however, had at least one more source other than pure self-preservation. These Asians who complain that the Filipinos are excessively westernized, to the point of losing their Asian identity, forget that there was nothing else for us to be.

For religious reasons, the early Spanish missionaries did a thorough job of destroying all the repositories of native culture that they could lay their hands on. The rationalization of this vandalism was that, like all primitive cultures, ours was essentially religious, and the ancient manuscripts were consigned to the flames as the work of Satan. Our native alphabet, so flexible and elaborate as to be a convincing proof of a high degree of civilization, fell into disuse, to be rediscovered only after centuries as a scholarly curiosity. The native dialects survived in Roman script because the missionaries, with admirable assiduity and zeal not at all common to the white conquerors in Asia, learned the language of the people instead of compelling them to learn Spanish. But all the rest had to go.

It is difficult to determine now the strength, or even the exact nature, of our early culture. But it put up a

stubborn fight. Priest-magicians, even more than the dispossessed kinglets, led a series of sanguinary rebellions to defend the ancient altars. When the last one fell, the "western islands" and the tribes that inhabited them were in a state of grace, but also practically in a state of nature.

It would have been impossible to eradicate native culture completely in such Asian centers of civilization as China, India, and Japan, with their multitude of gods, temples, palaces, and traditions. The Philippines, on the outer rim of Asia, were an easier cultural conquest.

We were also the Asian people that remained the longest under western rule. Magellan raised Homonhon on the horizon in 1521; by 1572 Legaspi had destroyed the Mohammedan power in Manila. Japan was not occupied until 1945, and then only briefly; China never lost her independence, and neither did Siam; India was not annexed until the middle of the nineteenth century.

Moreover, the other westerners that shared with the Spanish the loot of Asia came as traders; they were interested in silks and spices, silver and gold. The Spanish were also interested in souls, and while the Dutch, for example, were content to take their profits and leave the Indonesians to Allah, the Spanish felt obliged in conscience to justify their conquest with salvation.

Shorn of their native traditions, isolated from the rest of Asia and the world by a strict policy of exclusion, we Filipinos had no alternative to western civilization. The American occupation confirmed it with material advantages and political institutions that seemed unrivalled by anything Asia had to offer. Dollars, habeas corpus, and the ballot completed the work of the catechism. As it had been since time out of mind, westernization appeared to be the key to personal and national progress, and imitation the easiest method of westernization.

It is to be hoped that with independence we shall become a little more discriminating. But it is still justifiable to say that we "accept western standards at their face value." Democracy, for example, was for so long a mere theory, the idealised aspiration of a subjugated nation, that our approach to its actual operation is necessarily tinged with an academic impracticality, an act of faith without good works.

There is an odd feature of that faith that perhaps deserves a passing comment, and that is the time-lag which afflicts our understanding of the west. The cliches of the contemporary world are epigrams among us. We hail as original discoveries, theories in politics, economics, sociology, and art that are already discredited abroad. It is startling to find that Lorna Doone is the standard of literary excellence in many schools, and that a considerable number of people believe the "third force" policy is a local invention. University professors do not tire of repeating the theories in vogue when they were college students in the United States; they have not bothered to keep up; and succeeding generations of teachers fall in their turn into the same rut.

Since we have grown accustomed to borrowing our ideas, we have lost much of our capacity for independence and originality of thought. We have also developed an extraordinary credulity, often mistaking form for substance, words for deeds, programs on paper for achievements.

A slogan is coined, a speech is made, a law is passed or an order given, and we imagine that the deed is done. We are told by higher authority that a diplomatic victory has been won, and, in utter disregard of the facts, we be-

OVERSEAS CHINESE IN SOUTHEAST ASIA

By Edward Bingshuey Lee

(Member of Legislative Yuan, Republic of China, Taiwan)

Dr. Sun Yat-sen, founder of the Chinese Republic, referred to the overseas Chinese as "the Mother of the Chinese Revolution" to show his appreciation for their support to the revolutionary cause half a century ago. No account of the early revolutionary activities of China's George Washington can be considered complete without mentioning the part played by overseas Chinese patriots in the overthrowing of the Manchu Dynasty and the establishment of the Republic of China in 1912. Sun Yat-sen always had a warm spot in his heart for the millions of Chinese living abroad, who received little or no protection from their Government when China was ruled by an emperor. He probably knew more about the needs of the overseas Chinese than any man alive at the time, as he spent about two decades of his life travelling constantly from one part of the world to the other before the Republic of China was established in 1912. To provide some means of helping to solve the problems of the overseas Chinese, Sun Yat-sen established the Overseas Affairs Bureau in 1924 under his personal supervision in his Presidential headquarters in Canton. That was how the present Overseas Affairs Commission began.

After Sun Yat-sen's death, President Chiang Kai-shek always kept the overseas Chinese in mind and did everything to gain their support. When the Generalissimo led his victorious Nationalist forces northward from Canton in 1926 and succeeded in establishing the National Government in Nanking in 1927, the Overseas Affairs Bureau resumed its functions and later expanded into a Commission. Since the Government of China moved to Taiwan, Chiang Kai-shek made every effort to imbibe among the people at home a better understanding of the problems of the Chinese living abroad, and at the same time, he encouraged the overseas Chinese to return to Free China and gain first hand knowledge of the progress that is being made. The importance with which President Chiang regards the 13,000,000 Chinese living in countries outside of China is testified by his broadcast to Southeast Asia on June 21, 1950, only three months after he resumed the Presidency. Expressing his gratitude for the support of the overseas Chinese, which is "a source of encouragement to all the soldiers and people at home who are fighting for independence and freedom," President Chiang said:

"I observe with great satisfaction the anti-Communist movement among the Chinese in the Philippines and the opposition by Chinese communities in Malaya against the establishment of consular offices by the puppet Peiping regime. All these indicate the devotion and loyalty of the overseas Chinese to their motherland. You have contributed greatly, both spiritually and materially, to the cause of China's national salvation. You have done your best to protect your motherland. It is my sincere hope that even under the most difficult circumstances, you will not lose confidence in freedom and in your beloved country.

President Chiang Kai-shek's anti-Communist appeal brought an enthusiastic response from the Sons of Han scattered all over the world. The first overseas Chinese mission came from the Philippines to comfort Free China's troops and arrived in Taipei on August 14, 1950. Since the arrival of the first mission, which represented 115 organizations in the Philippines, a total of 240 missions of one kind or another had visited Taiwan by the end of 1954.

In May, 1954 President Chiang chose Mr. O. K. Yui to form a cabinet. Premier Yui's Report of his Administrative Aims was delivered on June 8, 1954. The importance of the overseas Chinese in the eyes of the Chinese Government is stressed in Part 6 of Premier Yui's Report as follows:

"The 13,000,000 overseas Chinese not only constitute an important force for Free China's counter-attack and recovery of the mainland, but also serve as a shield for the Free World against the aggression of the international Communist bloc. Hereafter, in overseas Chinese affairs, we shall continue to promote solidarity among our overseas nationals and encourage cooperation between them and the local authorities and population. Their rights should be protected by diplomatic or other appropriate measures. At the same time, special consideration should be given to the

---

lieve it, just as readily as we would have believed the opposite.

What saves us is our ability to laugh at ourselves. A lively sense of the ridiculous has helped to keep alive our sense of proportion. We are indeed the only nationalists in Asia who do not take ourselves too seriously, which explains why we strike white man as being friendly and good-natured. We are "socially gracious" to them because we do not hate them. Only hatred can excuse bad manners.

Sometimes, of course, the irreverence we have for our rulers becomes a form of self-flagellation. What we do, or what our government does, is seldom as good as what other nations or other governments have done; there is a streak of masochism in our political opposition.

But in itself the laughter is a good thing. In the past it was perhaps the only way our people could get back at the foreign ruler. For the future it should insure us against submission to a messianic despot.

All in all, it would not be too far from the truth to say that we owe our faults to others, but our virtues are our own. Colonialism, through its various interpreters, made us irresponsible and imitative, improvident and even "indolent." It gave us false ideas of the indignity of manual labor and the security of a government job. It made us indifferent to our responsibilities to ourselves.

The wonder is that we retained our good humor, and the vitality to demand the only possible solution to our troubles.

We seem to inspire other nations with an irresistible urge to save us, civilize us, liberate us. The Spaniards believed they were rescuing us from the Mohammedans and other agents of Satan. The Americans proclaimed their purpose to civilize us, Christianize us, and liberate us from the Spaniards and the "Tagalog Republic." The Japanese in their turn assumed, like excellent mimics, the classic posture of saviors, and announced that they were come to free us from the Americans in particular, and white men in general. No one bothered to consult us, and many Filipinos were killed by these favors. By an amazing stroke of luck, we have managed to survive this solicitude, and to learn that in the end we must save ourselves.

education of our youth abroad. We must take suitable measures to advance their knowledge and skill and cultivate their respect for the culture and tradition of their motherland."

Two years earlier the Legislative Yuan had passed an eight-point overseas Chinese policy after study by the Overseas Policy Committee. A perusal of the Legislative Yuan's eight-point policy, passed on May 27, 1952, shows that it was formulated to cope with the problems and needs of the Chinese abroad, particularly in view of the situation created by Communist aggression:

1. As Chinese nationals living in countries which have recognized the Chinese Communist regime are facing difficulties, our Government should devise measures to protect their interests. 2. Government should encourage Chinese abroad to resist Communist aggression. Government should lead and direct Chinese who have been deceived or repressed by the Communists. 3. Measures should be devised to attract the flow of remittances into Free China from the Chinese abroad. 4. Overseas Chinese students should be encouraged to return to Free China for higher studies. 5. Measures should be worked out to furnish relief of dependents of overseas Chinese stranded in Hongkong, Macao and other places. An agency should be established in Hongkong and/or Macau, to provide advice and assistance to Chinese nationals who wish to come to Taiwan or proceed elsewhere. 6. Government should set up an organization for cultural advancement to aid patriotic overseas Chinese newspapers. Assistance and guidance should be given to Chinese nationals who publish anti-Communist publications. 7. Skilled technicians living abroad should be encouraged to return to Free China and offer their services. Government should permit patriotic overseas Chinese youths to take part in the anti-Communist struggle by enlisting them in the armed forces. 8. Social welfare work should be carried on among Chinese nationals abroad in order to strengthen their support for China, and sufficient funds for overseas administration should be appropriated by Government.

Five months after the Legislative Yuan passed its eight measures, it happened that the convocation of the historic Overseas Affairs Conference brought delegates from the four corners of the earth to Taiwan. Four "Guiding Principles on existing overseas Chinese problems," formulated after passage of the Legislative Yuan's policy, were placed on the agenda by the Overseas Affairs Commission for discussion at the conference. During the fifth meeting the Overseas Affairs Commission's Chairman Cheng Yin-fun took pains to explain his masterpiece to the delegates, who were mostly overseas Chinese businessmen. The result was the unanimous passage on October 23, 1952, of the Four Guiding Principles as follows:

1. In view of the improvement in China's foreign relations, the strength of the overseas Chinese must be mobilized in order to support our Government. Steps must be taken to afford legal protection for the rights and interests of Chinese nationals, to safeguard the interests of overseas Chinese nationals who are living in countries which have recognized the Communist regime. 2. To coordinate the activities of overseas Chinese organizations, to render their work more effective among the Chinese abroad, and to intensify their activities against the Chinese Communists and the Soviets. 3. To advance overseas Chinese education and to foster cultural activities among the Chinese abroad in order that they may enjoy the benefits of the culture of their homeland; to encourage overseas Chinese students wishing to return to China to study by giving every assistance. 4. To help overseas Chinese nationals to return to China to establish enterprises. Every encouragement should be given to overseas Chinese to return to their homeland to offer their services to the Government.

Since then, the wheels of the Overseas Affairs Commission have been revolving around the Four Guiding Principles. The Commission's Chairman Cheng Yin-fun chose the Four Guiding Principles as his Five Great Working Rules: (1) Our working spirit is service to the overseas Chinese; (2) Our objective is to solve the difficulties of the overseas Chinese by helping them to consolidate their own strength; (3) Our fundamental task is to expand, coordinate, and improve existing overseas Chinese organizations; (4) Our work is centered on the advancement of overseas Chinese education; (5) Our method is adaptation to the conditions of each country in accordance with the nature of each problem.

The Overseas Policy Committee is a policy making body of lawmakers exercising legislative power on behalf of the people. The Overseas Affairs Commission is an administrative organization which carries out the work of the Government in matters relating to the Chinese abroad. The duties of the Executive Yuan's Overseas Affairs Commission are defined in its Organic Law, which states: "The Overseas Affairs Commission shall administer affairs relating to the overseas Chinese and shall provide assistance and guidance

INTERNATIONAL TRADE IN RICE AND THE FAR EAST

The World Rice Economy

Paddy is the most valuable of all primary products. The world output of paddy exceeds 170 million tons, equivalent to some 110 million tons of milled rice. Several commodities, however, are much more important than rice in international trade. At present, less than 5 million tons of rice are exported each year. This low proportion of international trade to world output means that large percentage changes in the volume of international trade can take place, and in fact it is now only about half its prewar level.

Over 90 percent of the world's rice is grown in the Far East, where it is the main foodstuff. It is also the chief source of livelihood to a large part of the population. In the Far East, about half the rice is consumed by the growers themselves.

The world war brought physical destruction and economic dislocation to most rice-growing areas and in some important areas civil unrest delayed rehabilitation during the early postwar years. Until 1951 the output of rice in the Far East remained below the prewar level, while the population increased by some 100 million as compared with 1938. This was a period of shortage, rationing and government-to-government contracts.

Meanwhile the area under rice was increasing in other parts of the world, and during and after 1952 there was a marked increase in the Far East also. The price of rice began to fall and the market changed gradually to a buyers' market, leaving some exporting countries with relatively large stocks.

The yield of paddy per hectare varies greatly between countries, from five tons or more in Spain and Italy and nearly four tons in Japan to less than one and a half tons in most parts of the Far East. Variations from year to year, however, are less than for wheat or most other cereal crops. Both bumper crops and crop failures are rare, and the risk of crop failures will be further diminished by the progress of irrigation and flood-control projects. Large fluctuations in output are as likely to come from changes in the area sown as from changes in yields, although yields may show an upward trend in the Far East as improved methods become more widely applied.

The steady growth of the rice-eating population of the world is likely to expand the consumption of milled rice (or its equivalent) by about 1 million tons a year.

In the Far East real incomes are low and the amount of food consumed per head is insufficient for adequate nutrition. In Malaya before the war over 500 grams a day of milled rice were used per head. The present average of the Far East is about 275 grams. This suggests that a very considerable increase in the consumption of rice would take place if real incomes were substantially higher or if rice were substantially cheaper, provided of course that the additional rice was available.

The change in the composition of cereal imports into the Far East, as compared with prewar years, is very striking. Before the war, they consisted each year of about 7 million tons of rice and 1 million tons of other cereals. During recent years the corresponding figures have been about 4 million tons of rice and 7 million tons of other cereals, mainly wheat. This change is not unconnected with the fact that rice has been nearly twice as dear, relatively to wheat and other cereals, as it was before the war.

The chief way to expand the consumption of rice in the near future would be a further reduction in its relative price. Other ways include the abolition of rice rationing where it still continues, notably in Japan, and the removal of restrictions on the use of rice for industrial purposes and for animal feed. Greater consumption would make for greater stability at the present time, when export surpluses tend to exceed import requirements.

The price of rice fell heavily during the great depression (1929-32) and rose sharply during the war. The early postwar years afford little guidance on price fluctuations, as rice was subject to allocation and rationing. The evidence suggests, however, that over the last 25 years the year-to-year fluctuations in the price of rice have perhaps been less than for most primary products.

International Trade

International trade in rice consists almost entirely (in contrast to other cereals) of rice which has already undergone some milling. This is because the bulk of the husk makes paddy too costly to transport. Rice, however, is far from homogeneous, and different groups of consumers have strong preferences for certain kinds of rice or of processing rather than others.

At present, a considerable part of international trade is carried on by governments (e.g. exports from Burma, imports into Japan) or is subject to very detailed government permits (e.g. exports from Thailand) But a growing proportion is being carried on by private traders, who can

This study was prepared by the Rice Section of the Commodities Branch of the Economics Division of the Food and Agriculture Organization of the United Nations. In the preparation of this study, FAO had the benefit of the services of Dr. Frederic Benham, until recently Economic Adviser to the Commissioner-General in South-East Asia and former Chairman of the Malayan Rice Investigation Committee.

---

for overseas Chinese nationals." The functions of the Commission are carried out by four departments.

The Overseas Affairs Commission originated in 1924, when it was established as a Bureau by Dr. Sun Yat-sen. It was not until December, 1931 that the Commission's Organic Law was promulgated by the National Government in Nanking. Since 1932 the Overseas Affairs Commission has been functioning as a regular department of the Executive Yuan and the Commission's Chairman enjoyed the rank and privileges of a cabinet minister. The Legislative Yuan's Overseas Policy Committee has a shorter history. It was established in 1948. When the Government of China moved to Taiwan, the Legislative Yuan reduced the number of committees from 20 to 12, but the committee concerned with overseas Chinese problems was kept intact.

Every country has the right as well as obligation to protect its citizens living abroad. The Chinese Government's obligation "to safeguard the rights of the people" is embodied in the Constitution. Article 141 under the heading of "Foreign Policy" states that the Republic of China shall "protect the rights and interests of Chinese natoinals residing abroad." The principle of protecting the economic enterprises of the overseas Chinese is further specified by Article 151 under the section on "National Economy."

more readily make frequent adjustments to changing conditions.

Table 1 shows the chief exporting and importing countries before the war and during recent years.

Table 1. Summary of Chief Rice Exporting and Importing Countries, Prewar and Recent

Exporting Country	Net Exports 1934-38 annual average	1952-54 annual average
	...........Million metric tons, milled equivalent...........	
Burma	3.1	1.3
Thailand	1.4	1.2
Indochina	1.3	0.2
Korea	1.2	Nil
United States	0.1	0.7
Italy	0.1	0.2
Others	1.4	0.9
Total	8.6	4.5

Importing Country	Net Imports 1934-38 annual average	1952-54 annual average
	...........Million metric tons, milled equivalent...........	
India	1.9	0.5
Japan	1.8	1.1
Malaya	0.6	0.5
Ceylon	0.5	0.4
Indonesia	0.3	0.5
Others	3.5	1.5
Total	8.6	4.5

This summary brings out some important facts. It shows the great reduction in the total volume of trade. It shows the large fall in the exports of Burma and Indochina, due to the war and subsequent internal fighting. It reflects the complete disappearance of the important prewar export trade from Korea and Formosa (Taiwan) to Japan; owing to the Korean war, Korea temporarily became a net importer. It shows the emergence of the United States as a major exporter. It shows the big fall in the imports of India, who is aiming at self-sufficiency, and of Japan whose government has preferred to import cheaper cereals. But it does not give an adequate impression of the complex and constantly changing pattern of international trade.

No fewer than 140 countries have taken part in the world rice trade over the last twenty years: 26 as exporters, 96 as importers and 18 as exporters in some years and importers in others. Most of them export or import only small amounts, but there is always the possibility that some of them may greatly expand or contract their trade.

The above summary does not show some important changes which have taken place since the war. For example, mainland China, which before the war imported some 700,000 tons a year now exports possibly over 200,000 tons a year: the imports of France have fallen from over 600,000 tons a year before the war to almost nothing; the prewar movement of rice from what is now Pakistan to India has been impeded by political factors since the war.

Again, the total volume of trade is greater than the net figures show in the summary. Before the war, India used to export nearly 300,000 tons a year of her domestic rice (her gross imports being 2.2 million tons a year); this trade has practically ceased. There was a prewar entrepot trade of some 500,000 tons a year (mainly by Singapore, Hongkong, and the Netherlands) which has fallen to only about 100,000 tons.

Moreover, year-to-year changes are concealed by averages over a period. Brazil was a leading exporter in 1952 (172,000 tons) and exported almost nothing in subsequent years; similarly with Egypt, which exported 314,000 tons in 1951 and very little since.

From 1926 to 1939 year-to-year fluctuations in the total volume of trade never exceeded 10 percent, whereas for wheat they exceeded 10 percent more often than not. Since the war, they have exceeded 20 percent only once, and that was in 1948, when the recovery from the war-time contraction was in full swing. Year-to-year fluctuations in the imports or exports of individual countries are of course considerably wider, owing to changes in the size of their crop or to changes in national policy. The imports of countries which import a substantial part of their consumption, such as Ceylon, Malaya and Mauritius, are fairly steady. The imports of countries which have a large output of rice and are close to self-sufficiency show large proportionate variations, their imports being much greater when they have a poor crop.

The Stabilization of International Trade

Long-term trends in the volume of trade or in prices reflect changes in the conditions of supply and demand. Measures of stabilization would aim at facilitating adjustments to such trends. But temporary fluctuations about a trend, first in one direction and then in the other, give rise to expectations which are not fulfilled and cause unnecessary losses and dislocation. Measures of stabilization would aim at smoothing out some temporary fluctuations.

In the past, year-to-year fluctuations have seldom been violent. But big changes have taken place since prewar days and the postwar pattern is by no means fixed. The volume of international trade is at present only some 4 percent of world output, and this makes it liable to proportionately large and sudden fluctuations.

For example, mainland China produces around 50 million tons of paddy a year. If her output should expand by only 3 to 4 percent this would enable her to maintain consumption and export over a million tons of rice. Again, if Japan were to import her cereal requirements mainly in the form of rice this might add some 2 million tons to the volume of trade. Prewar channels of trade, such as exports from Korea to Japan, may be re-opened; potential exporters such as Egypt and Brazil may again offer large quantities for sale; the imports of countries verging on self-sufficiency may fluctuate widely from one year to the next.

The burden of fluctuations would be especially heavy on countries such as Burma and Thailand whose economies depend largely on their export earnings from rice. A temporary but prolonged fall in their export earnings would reduce incomes, public revenues, and the volume of investment; a temporary but prolonged rise might lead to over-expansion and inflation.

Any measure of stabilization is likely to fail unless it is based on a good forecast of price trends. For example, if the maximum prices which exporting countries agree to accept under a multilateral contract scheme prove to be much lower than free market prices, this will clearly give rise to difficulties. Conversely if exporting countries aim (under some export quota scheme, for example) at prices higher than are warranted by the underlying conditions of supply and demand they are bound to be landed with accumulating stocks which will eventually have to be sold at a loss and which will tend to force down prices still lower.

Whatever measures may be taken to reduce instability, a leading part will be played by stocks. For example, large unforeseen sales from stocks temporarily depress prices and disturb the channels of trade: hence an agreed and coordinated policy on changes in stocks is desirable. Under such a policy, stocks can be used as a powerful means of reducing instability. They can absorb temporary surpluses

and relieve temporary shortages, thus smoothing out price fluctuations.

Possible Measures of Stabilization

(a) Consultation: Representatives of exporting and importing countries could meet at regular intervals to exchange information about the current position and prospects. Each delegation could give a forecast of the changes which it expected to take place in the production, consumption, and exports or imports of the country which it represented and could describe any relevant plans which its government was carrying out. Such information would facilitate adjustments to long-term trends; in particular, it would enable the exporting countries to adjust their economies towards either a growing or a diminishing volume of exports in the future. It would tend to reduce fluctuations by making countries aware in advance of probable changes in export surpluses and in import requirements.

Such meetings might go further. They might lead to more or less definite commitments on measures to reduce instability. Thus countries might undertake to endeavour to follow a co-ordinated policy on stocks and not to make large changes in their stocks without prior consultation. The exporting countries might undertake to keep minimum stocks sufficient to meet a temporary shortage and in return the importing countries might agree not to reduce their imports by more than, say, 20 percent below the level of the preceding year.

(b) A Multilateral Contract: A multilateral contract on the lines of the International Wheat Agreement is an arrangement by certain exporters to make available specified quantities of rice at a stated maximum price and by certain importers to buy specified quantities at a stated minimum price. It is thus a kind of mutual insurance which becomes effective only when market prices rise above the maximum or fall below the minimum.

Such an agreement would have a significant effect in reducing instability if it covered a large part of world trade and if the spread between the maximum and minimum price were not too wide, or the period of the contract too short, to make the mutual insurance which it provided of little value.

The Report of the United Nations Committee on Commodity Trade and Economic Development points out, in its discussion of multilateral contracts, that "it is clearly very difficult to arrange a multilateral contract for a commodity which is marketed in a number of varieties, with widely fluctuating differentials between them and with only partial substitutability of one variety for another." Rice is precisely such a commodity and this technical difficulty would probably rule out a multilateral scheme even if sufficient exporting and importing countries could agree on the maximum and minimum price.

(c) Export Quotas: Under an export quota scheme, of which the sugar Agreement is an example, exporting countries adjust the total volume of their exports to the expected demand for imports. Agreement is reached, together with importing countries who participate in the agreement, on what the total exports of the group shall be for the coming period. Each exporting member country has its quota, a fixed percentage, agreed upon when the scheme is started, of the total.

If such a scheme covers a high proportion of world exports and is supported by adequate stocks it is a practicable way of reducing instability. Naturally it will work better if importing countries can give good estimates of their requirements.

An export quota scheme might aim, as the Sugar Agreement aims, at keeping prices within certain limits. When prices approached the upper limit exports would be increased and when they approached the lower limit exports would be reduced. If the rice limits were fixed at such levels that relatively high prices were maintained by restriction of exports, there is a possibility that importing countries would be induced to grow more rice for themselves and that the exports of countries outside the scheme might considerably expand.

An export quota scheme would work well only if it covered a large proportion, say 70 to 80 percent at least, of world exports. A big difficulty might be to obtain agreement by the exporting countries on their respective quotas. If price limits were fixed, exporting and importing countries would have to agree on what they should be, and on whether they should be changed as time went on

(d) An International Buffer Stock: A buffer stock would smooth out large fluctuations in prices by buying rice when its price was relatively low and selling it when it was relatively high. Ceiling and floor prices might be fixed, subject to revision as time went on. The manager of the buffer stock could be instructed to sell when the price approached the ceiling and to buy when it approached the floor.

The buffer stock would therefore need resources partly in the form of rice (or paddy) and partly in the form of money. The larger its resources, the more effective would be its control over the market. Possibly 2 to 3 million tons of rice plus some $250 million would be needed, although only part need be subscribed at the outset if the participating countries were ready to provide the balance as and when required. It is doubtful whether some major exporting countries could spare the large sums they would have to subscribe as their share of the capital, and this might kill any such proposal at the outset.

The buffer stock should make a gross revenue on its operations, for it would buy rice cheap and sell it dear. Against this, however, would have to be set expenses of administration, interest charges, and also all costs of storage. The costs of storage, including any losses through damage, pests, or deterioration, would probably be well above 10 percent per annum of the value of the rice. Paddy keeps much longer than milled rice without deterioration and is less subject to damage by insects and rats and other pests; on the other hand it has twice the volume of milled rice. Even for paddy, storage costs would be high.

A buffer stock, like a multilateral contract, has the advantage that it is not in itself a measure implying a restriction of output. On the other hand, an international buffer stock for rice would be confronted with the same technical difficulty as a multilateral contract scheme. There are many varieties and qualities of rice; "differentials" are constantly changing and may vary widely; and there is no market on which the prices of different varieties and qualities of rice can be ascertained. It would therefore be very difficult for the manager to avoid complaints that he was discriminating against certain kinds of rice by selling them rather than other kinds, or by selling them too cheaply, or by not buying enough of them. Unless the participating countries were prepared to give a very large measure of discretion to the manager it is unlikely that an international buffer stock would show a net profit.

(e) National Stocks: It is necessary to define exactly what is meant by national stocks. In exporting countries they are stocks over and above the stocks required to provide for internal consumption during the current crop year, and to meet the expected demand for exports during the current crop year, together with the (relatively small) stocks normally held for trading purposes as a "carry-over" from one crop year to the next.

In importing countries, national stocks mean stocks in excess of those remaining from the preceding harvest and of those normally held for trading purposes.

National stock policies might be co-ordinated and might serve the same broad purpose as an international buffer stock. They would relieve temporary shortages and absorb temporary surpluses, and would thereby reduce the amplitude of price fluctuations.

In order to act as an effective cushion, national stocks held by exporting countries would need to be of a size equivalent to some six months' world exports. At the present time, this means the equivalent of 2 to 3 million tons of milled rice, which is only 2 to 3 percent of world output. They could be held entirely in the form of paddy. Nevertheless additional and improved storage facilities would be needed by most exporting countries.

National stocks might be subject to detailed international control. It is more probable, however, that each country would wish to control its own stocks. In that event, the problems arising from differences in varieties and qualities, which an international buffer stock would have to face, would be avoided.

Countries might agree to endeavour to follow a common policy on stocks, in order to reduce instability, and to have periodical discussions with that object in an intergovernmental group. They might undertake not to make any large changes in their national stocks (especially, perhaps, sales from them) without consulting the group.

Financial Implications

If an intergovernmental group were formed, each government would bear the expenses of its delegates to meetings of the group or of any committee which the group might set up.

Should the group, which would then probably be called a council, operate a multilateral contract scheme or an export quota scheme, the administrative expenses would be small, probably about $100,000 a year. Exporting governments would incur some relatively small cost for licensing and registering exports under an export quota scheme. If they undertook to hold minimum stocks most of them would require additional capital and storage space.

An international buffer stock would need the equivalent of 2 to 3 million tons of rice plus about $250 million. Presumably countries in the dollar area would subscribe in dollars and other countries in sterling. Neither all the rice nor all the money need be put up at the outset, but they would have to be made available when needed by the buffer stock. The buffer stock would doubtless be able to rent some existing storage space, but it would also need capital to build more. Some importing countries might subscribe some capital, but if it all had to be found by the chief exporting countries, they would have to subscribe something in the neighbourhood of $150 for each ton of rice they normally exported per year.

On liquidation, the buffer stock might show either a capital gain or a capital loss, depending largely on whether the price of rice was higher or lower than when it was started. Whether it made a net annual profit or a net annual loss would depend largely on how far the manager was given discretion to operate with a view to making profits (while keeping prices within agreed limits) and on his skill and judgement. The annual expenses would include costs of administration, depreciation on storage space and other property owned by the buffer stock, interest charges on the capital, perhaps payments to a reserve fund against possible losses on liquidation, and, above all, storage charges. The costs of storage, including losses through damage or pests or deterioration and including the transport and other charges involved in rotating the stocks, might well exceed 10 percent a year of the value of the rice. Participating importing countries might agree to share in the net annual profits or losses.

At present most exporting countries in effect hold some national stocks, although they are not ear-marked as such. Some countries, notably the United States, hold stocks in excess of the minimum which would be required. Hence the additional capital required by a country to build up its national stock to the minimum agreed on with the council might not be very large. This is especially true of those exporting countries where the domestic price of paddy is relatively low, for exporting countries could hold their national stocks in the form of paddy, to be milled when required. Their governments would retain the proceeds of any such rice (exported to meet a temporary shortage) but would have to buy more paddy whenever their national stocks had to absorb a temporary surplus.

Most exporting countries, including those in the Far East, would need to improve some of their present storage facilities and also to add to them. Paddy keeps in good condition much longer than milled rice and is to some extent protected by its hard husk from damage by pests, but it is twice as bulky as milled rice. The annual cost of storing paddy varies considerably between countries but it probably amounts (including interest charges on the capital) to at least 10 percent of the value of its rice-equivalent.

Recommendations

An intergovernmental group on the economic aspects of rice should be established, open to membership by all interested countries. The intergovernmental group should hold meetings at regular intervals at which the world rice situation would be reviewed and other economic aspects of the rice industry discussed. At these meetings representatives of exporting and importing countries would exchange information about the current position and prospects. Each delegation would give a forecast of the changes which it expected to take place in the production, consumption, and exports or imports of the country which it represented and would describe any relevant plans which its government was carrying out.

Exporting countries should hold national stocks in addition to the stocks held against their normal requirements. Some importing countries also may hold such stocks as food reserves. Countries would endeavour to follow a co-ordinated national stock policy. The intergovernmental group would offer guidance to each country on its most appropriate action in the general interests of stability.

It is possible that countries might agree to more definite commitments. They might agree not to sell any appreciable quantity from their national stocks without first consulting the intergovernmental group. Exporting countries might undertake to hold national stocks of an agreed minimum size. In return, importing countries might agree, for example, not to import less in any year, than, say, 80 percent of the amount they imported in the preceding year.

The aggregate of national stocks held by exporting countries should be equivalent to at least six months' exports, at present 2 to 3 million tons of rice, or 2 to 3 percent of world output. Most of them would need to expand and improve their storage facilities. As greater stability would benefit all producers and all consumers, the less developed countries would have good grounds for seeking international assistance to enable them to carry adequate national stocks.

The intergovernmental group might discuss whether any stabilization scheme such as a multilateral contract scheme or an export quota scheme or an international buffer stock should be started. If any such scheme were agreed upon, the functions, and title, of the intergovernmental group would be revised so as to enable it to supervise its administration.

PROBLEMS OF MARKETING AND DISTRIBUTION IN THE PHILIPPINES

By Bonifacio A. Quiaoit

(Bureau of Commerce, Manila)

The true economic position of any country is determined by the conditions of the great mass of its people. In the Philippines, which is essentially an agricultural country, we can attain real economic contentment only by providing our small farmers and producers who compose a great bulk of our population with the wherewithals of a satisfactory standard of living. This can be done by giving our small farmers and producers the fair returns of their produce commensurate with their efforts and energies.

It is regrettable to state that our small farmers and producers have centered their attention primarily on agriculture, leaving almost entirely in the hands of middlemen the business of disposing and marketing their products. As a matter of fact, the present low economic position of our small farmer can be attributed mainly to his inability to market his produce efficiently and advantageously as to derive the maximum returns. So limited is his marketing know-how that beyond the simple task of selling his products to the first buyer, who in most cases constitutes the first link in a chain of intermediaries, the average Filipino farmer is practically ignorant of the factors and conditions that determine the price of his products. Not infrequently, although his needs are so scarce, he meets difficulty in raising advance money with which to tide him over before he gets returns for his products. As a consequence, he falls an easy prey to loan sharks and unscrupulous middlemen. The methods of marketing employed by our average Filipino farmer are haphazard, antiquated, crude, and, worst of all, totally individualistic in nature. In fine, it is, therefore, imperative that in order to establish an economic well-being of our country we should have an economical, orderly and efficient system of marketing.

Lack of Marketing Facilities

The most common problems of our small farmers and producers in marketing their products may be summarized as follows: lack of financing, insufficient storage or warehousing facilities, lack of market information and lack of standardization.

Lack of financing has always been the root cause of the backward condition of our marketing system. Sometimes the sale of the products of our average Filipino farmer is already effected even before he is ready to harvest them because of urgent need for immediate cash. It is not seldom to find a small Filipino farmer, pressed by cash requirements, obliged to obtain loans with usurious interest from unscrupulous middlemen under an onerous condition that his produce when harvested should be sold to said middlemen at a price dictated by the latter.

Sometimes the average Filipino farmer deposits his produce in a bonded warehouse. While his products are thus deposited, he contracts loans and advances from the warehouseman using his deposit as a collateral security. In this way, the warehouseman acts dually as a farmer's bank and a merchant. In actual practice, however, it is stipulated between the depositor and the warehouseman that the stored commodities, in order to be free from storage fees, should be sold to the latter. The inevitable consequence, therefore, is that the poor farmer is left no other choice than to sell his goods to the warehouseman rather than pay storage fees. It is sad to state, in this connection, that the liquidation price in the transaction is usually hardly commensurate with his investment and efforts.

Market Information

Lack of market information has also caused our small farmers and producers to be individualistic in marketing their produce. The ignorance of the average farmer of the various factors and conditions obtaining outside of his locality bearing an influence on the price of commodities makes him enter unknowingly into a ruinous competition with his co-farmers in marketing their produce, ultimately working to their disadvantage. Aware of this, the bureau of commerce, through the markets division, releases and distributes through all media of communication—the press, radio, mail, telephone and telegraph—daily market reports on prices of important commodities. These reports are sent to all the provinces in the Philippines through our provincial commercial agents for the guidance and information of provincial producers and small farmers.

Again, our average Filipino farmer, lacking the knowledge of the true grade, standard and quality of his produce, becomes an unwilling victim of the clever manipulations of the middlemen aimed at deceiving the former about the true and real grade, standard and quality of his produce Sale by inspection, which is not only cumbersome, inaccurate and essentially uneconomic, likewise entails so much loss of time, energy and money. Realizing the importance and necessity of standardizing, the government created a division of standards in the bureau of commerce charged with the task of fixing and establishing the grade, standard and quality of all agricultural, forest, mineral, fish and industrial products of the Philippines for which no standardization has as yet been fixed by law.

The main problems of marketing of local products in general revolve around inefficiency and high cost. If we could minimize cost we could achieve the ideal and ultimate objective of marketing, which is to pay relatively high prices to producers and to charge the consumers relatively low prices.

Warehousing

To have minimum marketing cost, we must have facilities for adequate warehousing, efficient transportation, liberal financing, honest risk-bearing, proper grading and standardization and good processing and packaging.

Our present warehousing facilities in the Philippines are far from being adequate not only in construction but also in number, available storage space, and distribution. The operation of warehouses works to the detriment of domestic trade in many instances because the warehouses are owned and operated by those who are engaged in the business of buying and selling commodities to be stored in said warehouses, and naturally the owners or operators manage their

business of warehousing mainly to the advantage of their business of buying and selling.

Some warehouses are maintained more for the purpose of hoarding and profiteering than for storing. There has been instituted a system of bonding and licensing warehouses in the Philippines, but only palay and rice in the principal rice-producing provinces in Central Luzon and imported merchandise in Manila are being covered quite satisfactorily at present. In the provinces there are no warehouses with cold storage facilities and very few warehouses for storage of commodities other than rice or palay.

Transportation

Transportation is one of the marketing functions that are very vital to the economic development of the country. The Philippines, comprising of a number of inhabited islands, needs an efficient land and coastwise transportation system properly equipped with the facilities for modern commerce. The high cost of transportation has sliced a great portion of the share of producers and merchants from the profits of the sale of goods. The inefficiency and inadequacy of transportation has contributed to such high cost of transportation.

There is need for more roads to the barrios. There must be good highways to serve as the main arteries of commerce and tributary roads to act as feeders to provide ease in the concentration of products from sources of production to terminal markets and concentration points. These roads should be able to reach the maximum penetration points to areas which are badly in need of them.

The shipping facilities in our coastwise trade are also inadequate. Shipping schedules are sometimes uncertain. Shipping space is very limited and sometimes not available to all those who may wish to ship their products to commercial centers.

And what is most important are the facilities for handling. The bulk of our agricultural products is perishable. These products should be transported with dispatch and they should properly be handled to avoid deterioration. We also need in this country the complementary transportation facilities of railroad cars, freight ships, air freight, storage units, postal freight service, freight trucks and carriers, and trained handlers.

All in all we need a transportation system that must be able: (1) to meet adequately all normal demands and requirements of the people, (2) to fill such demands with speed and dispatch, (3) to furnish the number and kind of transportation service necessary to make the marketing structure function and operate efficiently, and (4) to render such services cheaply and economically.

Loans

The financing of producers and merchants, who desire to send their merchandise to the best market and sell at the best obtainable price, is still a great problem. Difficulties in securing loans or advances on commodities stored in warehouses or in transit place the producers and merchants in a condition of distress which compels them to dispose of their products to the first or only bidder. This is particularly true of many farmers and agricultural producers.

The risk-bearing functions are seldom performed in the marketing process, except in the big ports of entry like Manila, Iloilo, and Cebu, where there are good warehousing facilities duly bonded and insured against loss by fire. Marine insurance of goods in transit, except in some interisland vessels, is seldom resorted to enhance the negotiability of shipping documents, which could be used as collateral for loans or advances on goods in transit. And the commercial banks are not ready to grant loans or advances on actuals or in storage.

Failure, neglect, or inability of producers to process, sort, classify, grade, standardize, and package properly their products increases tremendously the cost of marketing to the disadvantage of both the sellers and the buyers and ultimately the consumers. Many products remain unstandardized that it would be impossible to trade on the basis of grade or class of a commodity. Trading thus becomes tedious and wasteful.

Improper packing and packaging of commodities is responsible for damages to products in transit. Losses for such damages are very tremendous and they contribute greatly to the cost of commodities.

Summary

In summary and conclusion, the problems of the domestic trade of the Philippines may, therefore, be reduced to only one problem, which is, how to reduce the cost of marketing. And, stated briefly, the cost of marketing may be reduced to the minimum by more efficient performance of the marketing functions. To make marketing more efficient and therefore less costly does not make imperative the reduction of the number of marketing agencies and middlemen, but it does make practical the reduction of the number of times the marketing functions are performed. These marketing functions are assembling, sorting, grading, standardization, processing, packaging, storing, transportation, financing, risk-bearing or insuring, and dispersing, distributing or selling the goods to the final users or consumers.

The Bureau of Commerce, with its very limited means and facilities, is helping solve the problems of the domestic trade by designing and instituting ways and means to make marketing or the performance of the marketing functions efficient and to reduce marketing costs.

THE FILIPINO FARMER

By Robert T. McMillan

(Social Science Adviser, United States Foreign Operations Administration, Manila)

More than 1,600,000 Filipino farmers produce all or part of the food, clothing and shelter for over 21,000,000 citizens in the Republic. The economic and political future of the Philippines depends in large measure upon the progress and prosperity of this important economic group during the next decade or so. For this reason, it is desirable to take a close look at the typical Filipino farmer, his family, his ways of earning or living, his relationships with the community and the nation, his expectations and his everyday problems.

The typical Filipino farmer is between 40 and 45 years old, married, and has about six persons in his family including himself. He has farmed for more than 20 years and worked as a farm laborer on his father's farm before leaving home. One of the serious problems that the farmer faces is how to help his oldest son get an economic foothold. Farm

land is scarce and job opportunities outside agriculture are hard to find. A few of the young men reared in the barrio where the typical farmer lives have migrated to cities. Many unemployed farm youths in the barrio are waiting for older farmers to retire or die so that they themselves can get married and begin farming.

Low productivity is characteristic of the Filipino farmer. The average annual yields of palay have fluctuated between 23 and 27 cavans per hectare for more than 30 years. (By comparison, Taiwan produces 75 cavans per hectare annually). Average yields of corn range from 11 to 15 cavans during most years. The native hen lays about 50 eggs per year. Productivity per hectare and per unit of labor is low generally due to these problems: 1. Farm land is idle nearly half the year due partly to lack of irrigation facilities; 2. Soil fertility is decreasing; 3. Many farms are too small for efficient production; 4. Most farmers have insufficient capital; 5. Organization for use of land, labor, and capital is weak; 6. The high returns of capital in form of rent and interest tend to limit work incentives of farmers; 7. The man-to-land ratio on farms is high and increasing; 8. Available labor of the operator and his family is idle a large part of the year; 9. Workers are relatively inefficient, possibly due to limited schooling, skills, malnutrition, intestinal parasites and other factors; and 10. Most farming practices are traditional and unscientific.

A few of the foregoing problems can be solved in part if the farmer will diversify his crops; increase his crop yields; increase the number of livestock; and improve soil fertility through application of compost, green manures, or commercial fertilizer. The Government can help by enforcing the tenancy and usury laws, furnishing more credit to farmers, installing more irrigation systems, and teaching farmers better farming methods.

Probably the proportion of Filipino farmers who are tenants is higher than census data indicate. Nearly half of the farms are operated by tenants. As generally practiced farm tenancy assures landlords an abundant supply of labor and consequent high profits on his investment in land, and provides the tenant with considerable security of tenure but small compensation for his labor. The kasama system, which is prevalent in the Islands, offers little opportunity for the tenant to become economically independent. Due to his low income, he is nearly always at the poverty line. A new tenancy law passed by the Congress in 1954 is designed to improve landlord-tenant agreements. This law is administered by the Agricultural Tenancy Commission which also mediates disputes. Enactment of the Agrarian Court Bill during the last regular session of Congress should insure better enforcement of this statute. However, few tenants can ever become farm owners without additional effective land reforms.

The Filipino farmer suffers from shortage of capital. His chances to accumulate land, livestock, implements or savings are limited due to his low productivity, small farm, and fairly large family. Also, if he is a tenant he pays a high rental for land. Moneylenders often charge usurious interest on loans and buyers frequently pay low prices for products of the farm and home industry. In combination, these factors tend to keep the farmers in a state of economic dependency throughout his earning life.

Total assets of most farm owners, including their land, dwelling, livestock, implements and other items probably amount to less than P4,000. Assets of tenants generally do not exceed P1,000.

Half the farmers occupy farms with less than two hectares; and only one-sixth have units with five hectares and over. The prevalence of small farms is traceable in part to the farmer's traditional cropping economy upon a single carabao and one plow. Also, in older settled areas, there is a definite trend toward smaller units as parents divide up their farms to provide land for children.

* * * *

Most farm families receive less than P600 per year from farming operations and other employment. In addition to farming, Filipino on the land earn income from fishing, selling bamboo and wood, performing labor on public highways or large plantations, and, with the aid of his family, producing a wide variety of items in home industry, including wooden slippers, mats, hats, bags, brooms, pottery, cakes and candies.

Compared with other countries in Southeast Asia, farm families in the Philippines enjoy a fairly high level of living. Furthermore, living conditions are improving, though slowly. More than 60 percent of heads of farm families surveyed in 13 barrios reported some schooling, the average being 2.2 grades. Though school attainments are not as high as they should be to induce more rapid social change, they help to explain in part the growing demand for better ways of living. Advancement in formal education will reduce resistance to adoption of improved farming practices.

A survey of farm family living costs in central Luzon during 1952 indicates that the total expenditures were just under P100 per capita. Seventy percent of this amount was consumed in food. As a general rule, the proportion of the total costs of living spent for food tends to decrease as the level of living increases.

Most farm families live in dwellings built largely from light materials such as nipa palm, cogon grass or sawali. Farm dwellings have two or three rooms and from 25 to 35 square meters of floor space. About one in every ten farm families uses a sanitary toilet. Farmers generally have better houses now than 30 years ago.

The farm family enjoys reasonably good health, but vitality could be much improved if internal parasites were eliminated. For two or three months before harvest, the family often experiences hunger from shortage of rice.

Filipino farmers are gregarious. They prefer to live near relatives and neighbors. All members of families like intimate, daily contacts with others in corresponding age and sex groups. The "bayani" system of exchanging labor provides opportunity for pleasant camaraderie during planting and harvest routines. Menfolk frequently attend cockfights on Sundays; women love gossip sessions; and children develop well adjusted personalities partly through simple but wholesome play activities in the neighborhood.

Farm families are closely-knit social units. Strong affections prevail among family members. A great deal of genuine companionship exists between parents and children. Long after leaving home, children return to seek advice and counsel from their parents. Families provide protection and comfort to close or distant relatives who are unemployed, ill, or otherwise unable to take care of themselves.

Filipino farmers have had little experience in formal groups. A great majority are members of the Roman Catholic Church, but their participation in its activities is infrequent and usually ritualistic in character. Most farmers contribute to the Parent-Teacher Association when a school building is needed in the barrio. They may attend the first few meetings of newly-organized puroks, barrio councils, rural improvement clubs or other local groups, but their interest soon lags, due perhaps to lack of activity, failure to understand or to accept objectives of the group, poor leadership, or other reasons.

A farmer usually is a member of a political party, but aside from voting, his contacts with the party organization are nominal. Although he is a citizen, the farmer

feels no strong ties with the Government for the reason that he is geographically situated some distance from the poblacion or provincial capital and communications are poor. Also, he has relatively few contacts with elected officials except at election time.

* * * *

What the Filipino farmer wants—and has a right to expect—out of life is a decent living for his family, good health, better educational and vocational opportunities for his children than he had, and security in old age. He wants self-respect and the respect of his fellow citizens. He does not want to be pushed around or to be the unwilling victim of an unfair landlord, a predatory moneylender, or a merciless merchant who buys his farm products cheap and sells him rice, kerosene and shoes at fancy prices. He would like to know that his requests and those of his neighbors for a road, well or schoolbuilding in the barrio or for guidance or how to get rid of crop pests will stand a fair chance of being fulfilled. As one of the 85 percent of the have-nots in the total population, he feels that the Government owes him the protection of law. If he is a tenant, he would like to win the land he tills. In short, he cherishes freedom from want, freedom of speech, freedom to worship, and freedom from fear.

Several important measures have been initiated by the Government during recent years to remedy perennial problems of Filipino farmers. Immediate effects are encouraging and the long-term outlook is most favorable.

Farmers are adopting improved farming practices. Rice yields per hectare have increased through use of the Margate or Masagana systems of seed selection, planting and cultivation; fertilizer; irrigation; and insecticides. Mango trees produce more when sprayed to protect blooms. Upgrading of livestock is underway through introduction of improved breeds from India, Australia and other countries. More poultry and livestock are being vaccinated now than ever before with consequent reductions in annual mortality rates. And many farmers are earning increased income by diversifying crops and growing more pigs and chickens. Three government bureaus—Agricultural Extension, Animal Industry, and Plant Industry—are engaged in promoting these better farming methods.

The farm credit program is moving forward with outstanding success. There are 256 FaCoMas with a membership of 114,000 farmers operating under the Agricultural Credit and Cooperative Financing Administration. Low interest credit to cooperatives and their members in the form of production loans, farm improvement loans, commodity loans and facility loans now amounts to P25 million. Also, the recently organized Rural Banks furnish another source of credit to small farmers.

Other programs of the Government, assisted by the U.S. Foreign Operations Administration, designed to improve the productivity and level of living of farmers include construction of roads, expansion of water facilities for irrigation and home use, purification of rice and corn seeds, conservation of soil and forest resources, establishment of rural health units and development of technical research in agriculture. Both the short-and-long-term benefits of the Government's rural development programs should go a long way toward insuring a progressive, prosperous and peaceful agricultural population. Furthermore, the growing emphasis on industrial development will create jobs outside agriculture for the unemployed population now on farms.

ECONOMIC REVIEW OF INDONESIA

POLITICAL PUZZLE

A New Government.—As reported in our last Economic Review of Indonesia, the Sastroamidjojo cabinet announced on 22nd July its intention of resigning as soon as an alternative government could be found. In the event, it continued in office for three weeks while efforts were made to form a Vice-Presidential cabinet which should be supported by both the P.N.I., leaders of the outgoing government, and the Masjumi, leaders of the opposition. When these failed, the task of forming a new cabinet was given to the Masjumi alone and on 12th August a coalition government, led by Burhanuddin Harahap, was sworn in. Ministers are drawn from twelve parties including the Socialists and the Christian parties who, like the Masjumi, were in opposition to the previous government, and also several groups—the most important being the Nahdatul Ulama or Orthodox Moslem Party—who had supported the Sastroamidjojo cabinet. The finance portfolio is held by Sumitro Djojohadikusumo of the Socialist party, economic affairs by I.J. Kasimo of the Catholic party.

The Harahap government holds office only until Indonesia's first elected Parliament assembles, which is expected to be early in 1956, but in a few months it may well accomplish more than the previous government did in two years. The new Prime Minister has announced a seven point policy —to restore the moral authority of government in its relations with the army and society, to hold elections, to settle legislation regarding decentralization, check inflation, stamp out corruption, continue the struggle for West Irian and develop Afro-Asian co-operation. The economic and financial reforms initiated by the new government will be dealt with below; it is sufficient here to say that they have already begun to show results. With regard to the army, Major General Bambang Utoyo, whose appointment as Chief of Staff precipitated the crisis this summer, has resigned and the new government and the army are co-operating closely in their efforts to stamp out corruption.

In foreign affairs, there has been a notable improvement in relations with the Netherlands and ambassadors of western powers are no longer cold-shouldered by the government in Djakarta. The foreign minister has asked for more Colombo Plan aid for Indonesia; the Prime Minister is reported to have said that he would welcome more American aid. In spite of all this it should be remembered that the last two of the government's seven points are not mere lip-service to Indonesian ideals but genuine policy, and the swing to the west should not be overestimated.

Election Results.—The realistic attitude of the Harahap government inspired new confidence in Indonesia's future,

---

The above Economic Review was compiled by The Economist Intelligence Unit, London. Copyright is reserved. Graphs, statistics and general economic information including maps supplement the Economic Review which is being published quarterly. Similar quarterly reports are available on practically every country in the world from The Economist Intelligence Unit, 22 Ryder Street, London S.W. 1. Enquiries regarding services and subscription rates may be addressed either to London or to the Hongkong representative, Mr. Eric E. Halpern, 322 Queen's Building, Hongkong.

both inside and outside the country, but it has been shaken by the unexpected election results. The first instalment of the elections was held as planned at the end of September; votes were cast for about 220 seats in Indonesia's 260 member parliament. The remaining seats will be voted for, security permitting, in November and fresh elections are to be held at some time for some seats in Central Java where more votes were cast than voters registered. Final results are not likely to be known until December or later since, quite apart from these problems, the allotment of seats on a basis of proportional representation is a lengthy business. (By that time, Indonesia will be in the throes of elections for the Constituent Assembly). It is, however, already possible to discern the main trends in the composition of the new Parliament.

Only four parties—the P.N.I., the Masjumi, Nahdatul Ulama and the Communists, in that order—command national support; all have some 6 million votes or more out of a total of about 30 million votes counted, but the precise figures are not yet known. The other parties which campaigned on a nation-wide basis, notably the Socialists, have lost their importance and many of them may merge with one or other of the four major parties. The next government will therefore almost certainly be a coalition of two or more of the major parties, supported by some of the small local parties, such as Parkindo (Protestant Christian) which draw their support from the outer islands.

Party Attitudes.—All the major parties are nationalistic and neutralist but some lean East, some West. The Communist party, alone among the major groups, has a clear cut domestic policy, one of determined advance towards state socialism, and of nationalisation of all foreign interests. Before the elections it advocated a popular front government in association with the P.N.I.; now it is suggesting an all-party coalition. In both cases it would seek to impose its policy on its less clearheaded associates. If left in opposition, it could probably make matters very difficult for the government because of its hold on organised labour. The Masjumi stands at the opposite extreme from the Communists. It is a Moslem party, anti-communist, moderate in action and might be described as the party of good government. But it is weakened by its division into a right and left wing, orthodox and westernizing; the present administration represents chiefly the left wing. The P.N.I. profess a policy of 'proletarian nationalism'. In practice the moderate nationalists are not far separated from the left wing of the Masjumi and a revival of the coalition between the two parties is thought possible since the P.N.I. is reported to be dismayed by the success of its late allies, the Communists, at the polls. But personal quarrels between the leaders of the two parties are a formidable obstacle to co-operation. Nahdatul Ulama, which astonished everybody by emerging as a major political force, might support a Nationalist-Masjumi coalition but it might equally support a Nationalist-Communist coalition. In spite of its orthodoxy, it has a left wing social policy and it is strongly anti-Western. The alternative coalitions will probably offer either an extension of the policies of the last two years, involving a further turning away from political and economic co-operation with the west and with Indonesia's traditional trading partners, or, which at the moment seems less likely, a watered-down version of the present government's policy. Meanwhile, the political uncertainty which must persist for another four months at least is bound to react on the present government's efforts to bring order into the economy.

A NEW BROOM FOR THE ECONOMY

The Harahap government took over at a time when the economic situation was deteriorating even faster, if anything, than during the past two years. Prices were rising daily, shortages of imported goods becoming more acute, administration more corrupt, while new regulations issued at frequent intervals to deal with these problems only offered new opportunities for bribery. The Harahap government has simplified regulations, tightened up the administration—it is prosecuting the Minister of Justice in the last government for corruption—and is curtailing government expenditure. In general terms its policy is to maintain effective trade controls to prevent the loss of foreign exchange and internally to control the inflation which has caused that loss.

New Import Regulations.—The most sweeping changes have been introduced in the administration of the import trade. With effect from September 1st, all previous import regulations were abolished, including the T.P.I., or levy, on all save essential imports which was introduced in 1953, the B.I.T. or textile import certificate and the B.I.S. or provisional import certificate, both introduced this year, the latter only in August. All regulations covering barter transactions with Singapore, compensation transactions with Hongkong, 'foreign-exchange free' imports and imports licensed by the J.P.P. or Stockpiling Foundation were withdrawn at the same time. Since the inducement system for 'weak' exports had already been abolished by the previous government, Indonesia now has one import control system in place of half a dozen. The agencies which administered the old regulations—the Central Import Office or K.P.U.I. and the J.P.P.—have also been abolished; their offices have been closed and the staff dismissed. The Jajasan Motor which controlled the distribution of imported motor vehicles and spare parts is to be transformed into a training centre. The new regulations will be administered by a Foreign Currency Trade Bureau or B.D.P., created for the purpose and supervised by the Monetary Council, which will deal with both import licences and foreign currency allocations.

The advance deposit system has also been modified and the former government's efforts to divert trade into the hands of 'national' importers relaxed. Foreign currency will be allocated to recognised national importers, who were required to re-register in September, only on deposit of the rupiah equivalent of the purchase price of goods to be imported with an approved bank. Non-national importers are required to deposit Rps. 5 million with the Bank Indonesia's Foreign Exchange Fund before they are issued with import licences. This deposit can be used to pay levies on goods imported; when it is exhausted non-nationals will be treated on the same footing as 'national' importers. Foreign enterprises such as the estates importing goods solely for their own use or for manufacture and re-sale are not required to make this deposit.

Import Categories.—Under the new system imports are as before divided into four categories—essentials, semi-essentials, luxuries and super-luxuries. An import levy of 50 per cent of the rupiah value of the goods imported will be charged on essentials, making the effective rate of exchange approximately Rps. 17.21 per U.S.$ against the former rates of Rps. 11.48 and Rps. 15.30 for essentials in classes A and B1. The levy on semi-essentials will be 100 per cent, giving a rate of Rps. 22.95 per U.S.$. This group appears to correspond roughly to the former Class B2 for which the old T.P.I. rate was the same, but some goods in Class B2 are now probably classified as luxuries and so will attract a higher levy. Licences for luxuries and super-luxuries will be auctioned to the highest bidder, a minimum price being fixed by the Monetary Council. It is reported that the minimum levy on luxuries may be in the region of 500 to 600 per cent, giving an effective rate of at least Rps. 68.88 per U.S.$, that is nearly twice the free market rate at the end of September.

The Indonesian authorities have published a rough guide to the type of goods falling in each import category. Essentials include consumer goods required by the entire population such as flour and drugs, materials for industry and agriculture—cotton yarns and grey cloth, dyestuffs, chemicals, paper, gunny bags and fertilizers, and essential transport and industrial equipment. Semi-essentials include a wider range of consumer goods, various foodstuffs, non-cotton textiles, bicycles, motor cycles, office equipment, nails and paint materials. Luxuries cover mostly imported foodstuffs and other consumer goods required by those with a European standard of living, also keys, locks, plate glass, bicycle parts and safes. Goods in the super-luxury class include refrigerators, radiograms, radio receiving apparatus with an f.o.b. value of more than Rps. 550 per unit, motor cars, gems and pearls. More lately it has been announced that imports of rice, milk for infants, aviation spirit, newsprint and scientific literature are exempt from the new T.P.I.

New Regulations.—The new import regulations, in spite of their stringency, have been generally welcomed. The simplification of import procedures and administration by a single agency are expected to mean speedier issuing of import licences and very much less corruption. The new attitude to 'Indonesianization' will make life easier for established European and Chinese traders and, by eliminating some of the many 'national' importers who simply sold their licences to foreign firms, reduce trading costs. Together, these changes should mean more economical distribution of imported goods, in spite of the payment of higher import levies. The new regulations should also be a more effective means than the old of discouraging luxury imports and the consequent waste of scarce foreign exchange, because profit margins on the sale of luxury goods will be cut.

Tighter Export Controls.—Similar changes have been introduced in the administration of export controls, designed to plug leaks in the system which have in the past prevented the Bank Indonesia from exercising full control over the country's foreign exchange earnings. The Minister of Economic Affairs, in conjunction with the Customs Service, the Bank Indonesia and the Foreign Exchange Institute, has drawn up a plan providing that: export prices should be determined in accordance with the daily quotations of the country of destination; short term contracts should be aimed at; special care should be taken to see that goods are actually consigned to the countries stipulated in export licences; rigorous anti-smuggling measures should be introduced including stricter control by police and customs authorities, more careful examination of shipping documents and regular re-weighing and sampling of goods for export. Here too the government is aiming at elimination of mushroom 'national' firms without adequate financial backing. It is the intention of the authorities to channel exports through old-established foreign firms and the few genuine 'national' exporters.

Export Duties Reduced.—On 23rd October it was reported from Amsterdam that further changes had been made in export controls, involving the reduction or abolition of many export duties and the introduction of export premiums, paid in rupiahs, for a number of commodities formerly classified as 'weak' products. In default of any precise information from Indonesia, it is not yet clear how this system will work. It seems that pepper, sugar, palm oil and kernels will be exempt from export duty, all extra export duties have been abolished, and the duty on copra, tin, petroleum and products modified; a 5 per cent export premium will be paid on pepper and a 10 per cent premium on other minor exports, most of which are produced by smallholders. The general effect of these measures—both the changes in administration and the duty changes—will be, it is hoped, to make Indonesian exports more competitive in world markets.

Internal Reforms: Balancing the Budget.—The central problem of internal policy is to reduce the soaring money supply by curtailing government borrowing from the Bank Indonesia which in turn requires that the budget deficit should be eliminated. It cannot be dealt with by the same rapid and drastic methods as serve to improve the administration of foreign trade. Shortly after the new government was installed, the Finance Minister stated that the 1955 budget deficit would be Rps. 3.5 billion, not Rps. 2.5 million as his predecessor had forecast a few months previously. He said that the main 1955 budget which had provided for expenditure of Rps. 13.99 billion and revenue of Rps. 11.49 billion would have to be supplemented by an additional budget covering expenditure of Rps. 2 billion and revenue of Rps. 1 billion. Since then, the introduction of the new import levies and the consequent increase in government revenue has led to a downward revision of the 1955 budget deficit to Rps. 3 billion, which is at least well below the 1954 deficit of Rps. 3.6 billion.

The government plans to introduce the 1956 budget in November—if it succeeds it will be the first time for several years that a budget has been introduced before the beginning of the financial year which it covers—and it hopes to achieve a balance between revenue and expenditure. Better tax collection and possibly more direct taxes will raise its income, economies, particularly on routine expenditure, will reduce its outlays. Moves have already been made in this direction; among other things no further permits to establish enterprises involving the expenditure of government money are being issued. Its successors may relax these measures during the latter months of 1956 so that in the end there may be no improvement.

Other Financial Measures.—It was reported from Amsterdam last August that the Indonesian government might shortly issue a compulsory loan of Rps. 1.5 billion, to reduce the money supply, and apply for a foreign loan to tide it over its immediate difficulties. This report has not so far been confirmed by Indonesian sources. Another possible financial expedient would be the granting of greater local financial autonomy to daerahs (local administrative units) which at present depend for the bulk of their revenue on the national government. This policy was warmly advocated by the Governor of the Bank Indonesia in his annual report for 1954/5; he pointed out that the daerahs were in a much stronger position than the national government with regard to tax collection and that only if they controlled their own revenues would they develop any financial sense of responsibility and be prepared to reduce their expenditure. The new government has adopted many policies advocated by the Bank's governor; it may seize the chance to adopt this too.

Moves to Reduce Prices.—The government is depending chiefly on smoother and quicker distribution of goods to bring down prices; it will give priority to imports shipped by the quickest way. In order to cut domestic transport costs it has reduced the petrol tax, which was raised last May, to its former level and it is trying to increase the supply of imported spare parts for motor vehicles so that the many lorries laid up for want of them may be put into commission again. The previous government had concluded last July a barter agreement with Burma under which 50,000 tons of rice were to be exchanged for sugar, rubber, copra, coffee and spices. Since then the rice shortage has become more acute and prices have risen sharply. The new government is to import an additional 45,000 tons of rice from Siam and Burma against cash payment. Shipments are expected to arrive this month and it is hoped that prices will

fall fairly quickly. The government is likely to be forced to continue rice imports on a reduced scale for some time to come since production has fallen, possibly by as much as 200,000 tons in Central Java alone.

Good Results.—The results of the new government's economic measures are remarkable. Prices, except rice prices, have fallen all round. For nearly two years domestic prices of primary export products has been above world levels. Now they have fallen and exports are moving more freely. Prices of imported goods show a similar drop, in the case of imported textiles by 30 to 40 per cent. Most striking of all is the fall in the free market price of gold and foreign currencies which last July had reached their highest point ever.

Free Market Price of Gold and Foreign Currencies
(Rps. per unit)

	Gold: kilogram	U.S.$	£ sterling	Netherlands Guilder
on 6. 7. 55	64,250	46	130	13.00
4. 8. 55	61,750	47	125	13.50
1. 9. 55	59,000	40	105	11:00
30. 9. 55	57,000	35	85	9.00

The balance sheet of the Bank Indonesia reflects a marked improvement in government finances. When the new government took over, the Bank's advances to the government had fallen from the peak of Rps. 9,865 million on 22nd June to Rps. 9,773 million on 10th August. By mid-October they were down to Rps. 9,147 million, a drop of over Rps. 600 million in two months against a rise of nearly Rps. 200 million in August and September 1954. The decline has only just, however, begun to be reflected in a contraction in the note circulation. It rose very slowly until early October, in contrast to its headlong career earlier in the year, then fell and is now, at Rps. 8,223 million, almost exactly equal to the circulation on 10th August.

Stronger Foreign Exchange Position.—The foreign exchange situation of the Bank Indonesia also shows some improvement over the last quarter.

Bank Indonesia: Foreign Exchange Position

Week ending	Total gold and foreign exchange holdings*	Foreign Exchange Fund: foreign liabilities	Foreign Exchange Fund: excess of assets over liabilities
29. 6.55	2,987	1,717	— 96
28. 9.55	3,089	1,671	110
12.10.55	3,269	1,714	113

* Includes gold and foreign exchange, exchange holdings of the Foreign Exchange Fund and bills and balances held abroad, but does not allow for the liabilities of the foreign exchange fund.

A sign equally of the improvement in internal and external finances is the rise in the gold and foreign exchange cover of current liabilities from 23 per cent in June to 24.6 per cent; it has not been as high as this since early 1954.

IMPORTS AND TRADING PARTNERS

Growing Trade Surplus.—Though exports were very little above the 1954 level Indonesia's trade surplus in the first seven months of this year was nearly three times as large as in the same months of last year because of the very great reduction in imports.

Indonesia's Foreign Trade: Jan.—July
(in million rupiahs)

	Exports	Imports	Balance
1954	5,256	4,573	+ 683
1955	5,399	3,615	+ 1,784

Even excluding trade by the oil companies, Indonesia has achieved a surplus of nearly Rps. 700 million, against a deficit on trade excluding oil of nearly Rps. 600 million in 1954.

Commodity Trends Unchanged.—A breakdown of trade by commodities for the first half of 1954 and 1955 shows little change from the trends recorded in our last Economic Review of Indonesia. Big savings were still being achieved on rice and wheat flour, cotton textiles, industrial machinery, most types of iron and steel and vehicles other than cars. Indonesian imports of some essential goods continued to be well above the 1954 level; it is importing more chemicals and pharmaceuticals, fertilizers, gunny bags, cement, constructional iron and steel and agricultural machinery. The new import regulations with their emphasis on essentials should not make much difference to the trend of commodity purchases. They will probably allow for larger cotton textile imports than before and larger purchases for domestic industry, much of which has been at a standstill for want of imported materials. They will certainly fall heavily on car imports. Nor can the total value of imports be permitted to rise substantially until foreign exchange holdings have risen further. But trading conditions should become very much easier and trading costs within Indonesia be reduced.

Trade returns of major suppliers of manufactured goods to Indonesia show equally little change in trend. Britain and Western Germany have increased their hold on the market for chemicals and similar goods; Britain is now Indonesia's main supplier in this group. Malayan sales of textiles and clothing continue at a very much higher level than in 1954. But among non-communist trading partners only a few countries—France, Belgium, possibly India—increased their exports to Indonesia in the first half of 1955. Trade with the Soviet bloc is rising rapidly. According to Indonesian trade returns imports from China and Eastern Europe amounted to $23.2 million from January to May 1955, against $3.2 million in the same months of 1954. Imports from Czechoslovakia have shown the biggest increase.

Trade Agreements with Czechoslovakia and Poland.—The visits of Czech and Polish delegations to Indonesia have borne fruit in the shape of new agreements designed to lead to a further increase in trade. The details of the Polish agreement, believed to cover trade to a total value of £3.6 million, have not yet been published. The Indonesian government is studying a Polish offer of technical assistance and credit facilities for the purchase of industrial equipment. The new agreement with Czechoslovakia provides for trade to the value of £6 million each way. Czechoslovakia is to export a wide variety of manufactures including machinery and other industrial equipment, metal products, paper, cement, matches, textiles, chemicals and vehicles under the agreement, Indonesia 18,000 tons of rubber, 500 tons of tin, 3,000 tons of copra and tea, coffee, palm products, spices and other agricultural products. The Czech delegation to the Indonesian Trade Fair has suggested that Indonesia might receive technical assistance from Czechoslovakia but, contrary to earlier rumours, the Czechs are not to invest in Indonesia.

It is still hoped to increase the volume of trade with China but negotiations for the renewal and expansion of the Sino-Indonesian trade agreement have not yet taken place. An Indonesian mission was to visit Peking for trade negotiations but its departure has been postponed.

Agreement with Sweden.—The trade agreement with Sweden has been renewed for another year to 30th June 1956. Indonesia has promised to increase quotas for imports from Sweden of ball and roller bearings, matches, wall-board, cement and accumulators and to establish new quotas for pumps, rayon fibre and yarn. The 1954 trade agreement with France has also been renewed.

Mission from Singapore.—Although the new government is for the moment continuing its predecessor's policy of concluding bilateral trade agreements where possible, it

has let it become known that it is reconsidering the merits and demerits of bilateralism and, if it can, will probably try to establish more normal trade relations with foreign countries. It responded warmly to the initiative of Mr. Marshall, the Chief Minister of Singapore, in seeking a resumption of normal trade relations. Mr. Marshall headed a most successful goodwill mission from the colony to Djakarta last September. In the few days during which it stayed in Indonesia the mission secured a promise that Indonesia would temporarily relax the ban on exports of slab rubber to Singapore, that it would not discriminate against Singapore in the new import regulations, that the Bank Negara would open a branch in the colony and that Indonesia would receive a full economic mission from Singapore and Malaya in December. Early in October a mission from the Federation visited Djakarta for preliminary discussions connected with the December visit; points for discussion included Indonesian rubber and copra exports, Singapore textile exports, barter trade and payments, including the vexed question of Malayan dollar earnings from re-exports of Indonesian produce. Legitimate trade between the two sides should increase rapidly even before a settlement of these questions is reached, simply as a result of the simplification of Indonesian trade regulations, and the new atmosphere of goodwill.

Restoring Trade with Japan.—The new government is also ready to consider the resumption of reparations talks with Japan which might lead to a return to normal trade relations. Meanwhile both sides are considering various expedients to raise the level of trade between the two countries. After negotiations lasting three months a barter agreement was concluded in August, covering the period September 1955 to January 1956, for the exchange of 200,000 tons of Indonesian sugar valued at $22.4 million for Japanese bicycles, textiles, ceramics and electrical appliances. The general Indonesian—Japanese trade agreement, covering Japanese exports valued at $55 million, Indonesian exports to Japan of $40 million and 'switch' trade of $15 million, has been renewed. Japan has submitted its plan for triangular trade, in Japanese textiles, Indonesian rubber and tin and U.S. raw cotton, to the U.S.A. and Indonesia but it is unlikely that Indonesia will agree to its execution.

Unofficial trade talks between the two countries held in Djakarta last August may lead to more Japanese technical assistance in industrialization and larger exports of capital goods to Indonesia. The plan to establish a joint industrial bank, proposed over two years ago, has been brought out of cold storage. Japanese interests would provide the bank's entire capital in U.S. dollars to the value of Rps. 50 million (approximately $4.4 million). Indonesians would take up 51 per cent of the shares in the form of loans to be repaid within 15 years and would have the option of purchasing the other 49 per cent within 10 to 15 years. As in trade with Malaya, the new Indonesian government's measures are likely of themselves to lead to an increase in trade with Japan but until the associated questions of Japanese reparations and Indonesian trade debts are settled, it cannot recover to the level of earlier years.

EXPORT PROSPECTS

Rubber: Prices Advance and Retreat.—Indonesian rubber exports earned Rps. 1,920 million in the first half of 1955 against Rps. 1,180 million in the first half of 1954. A drop in volume of some 20,000 tons was more than compensated for by higher prices. The decline in the volume of exports resulting from a lower level of production persisted during July and August—total exports in the first eight months of the year were 438,081 tons against 468,096 tons in the same months of 1954—but with a further increase in prices from an average of about 3/2d. per lb. in London last July to 3/7d. in mid-September, rubber earnings must have shown a further sharp increase in the third quarter of this year.

Within the last month prices have fallen again and they are now just under 3/- per lb. The decline may be in part due to the scare caused by President Eisenhower's illness, in part to tighter money in Britain, which incidentally has been a heavy purchaser of Indonesian rubber this year, and elsewhere. But the main influence on prices has been the cessation of heavy Russian buying which was equally the chief factor in the steep price rise of the late summer. A further sharp decline is not expected. The statistical position remains strong with world production of rubber lagging slightly behind world consumption; by the end of the year the two are expected to be roughly in balance. Indonesia can probably safely look forward to the continuance of a a high level of export earnings from rubber.

Tin: Higher Earnings.—Indonesia's tin earnings, too, are beginning to benefit from higher prices.

Indonesian Tin Exports

	Volume: Jan.—July: tons	Values: Jan.—June: Rps. mn. Ore	Metal	Total
1954 ..	17,672	287	13	300
1955 ..	17,750	325	—	325

The short term outlook for tin exports is favourable. The volume of exports recovered during the summer from the setback experienced in the early months of the year. Rising demand, stemming from higher consumption, has carried prices steadily upwards and an additional boost has been given by strikes and rumours of strikes in Malaya. From January to September the cash tin price in London rose by about £60 per ton; it is now in the region of £750 per ton. The U.S. tin contracts with Indonesia and Bolivia have been renewed again and will take care of any surplus in world production over consumption; the U.S. government is to purchase between 20,000 and 22,000 tons of tin during the next twelve months. The long term outlook remains uncertain, depending as it does on the ratification of the International Tin Agreement and the future of the Texas smelter which may cease to operate in June 1956. All the necessary countries save Indonesia have ratified the agreement. In the present state of affairs, however, it is unlikely that Indonesia will commit itself.

Copra, Tea and Sugar: Some Improvement Likely.—The recent performance of some other important export commodities is less satisfactory. Copra, tea and sugar all earned less in the first half of 1955 than in the first half of 1954—Rps. 45 million against Rps. 256 million, Rps. 177 million against Rps. 201 million and Rps. 20 million against Rps. 39 million respectively. In every case the volume of exports fell; copra and tea prices also declined. Indonesia's copra exports this year have been seriously hampered by lack of transport and by the financial difficulties of the Copra Foundation. There was not sufficient 'national' shipping available to carry copra from East Indonesia and the Foundation had exhausted its resources by making loans to bodies not connected with the copra—producing industry. The regulations on carriage by national shipping were relaxed in mid-summer and the Bank Indonesia made a new loan to the Foundation which should have helped matters. With the advent of the new government, the administration of the copra export trade should be improved. Even so, copra export earnings are hardly likely to equal the 1954 level

The decline in the volume of tea exports arises partly from slightly lower production but is mainly due to the fact that high internal prices discouraged exports. With the

DEVELOPMENTS AND PROSPECTS OF INDONESIA'S ECONOMY

(By Economic Section, Consulate General of Indonesia, Hongkong)

When foreigners are visiting Indonesia we often hear the remark that there is a certain paradox between the richness of resources wherewith nature has endowed our country on the one hand, and the economic and financial difficulties Indonesia is facing in its present state of development on the other hand. The answer is that to understand Indonesia's economic position and its economic, financial and foreign trade policy it is essential to view these against the background of (a) the impact of years of war and revolutionary struggle; and (b) the urge of a national economy (in contrast to the previous colonial economy).

The years of fighting and foreign occupation during the World War II, followed by the fierce struggle for independence during its aftermath caused devastations on an enormous scale. In fact, Indonesia's production and communication system was entirely out of joint and, to a large extent, even destroyed. At the transfer of sovereignty the new Indonesia was faced with a disrupted economy, an empty cash-box and a huge public debt to the Netherlands. Moreover, our Government had at its disposal a very limited number of well-trained officials, scientists and business-men to take over and to run the intricate mechanism of public administration and of commerce and trade.

It is not the right place here to go deeper into the causes of this unfavourable position. We may mention that, seen in retrospect, it may be called a miracle how so few with little managerial experience were able to prevent chaos and keep the country and its Government running. It had been realized by the founders of the Republic that the new state could not and would not continue the economic system as it had under colonial rule. A new shape had to be given to our economy in order to change it into a national economy. What the Republic was aiming at from its very beginning was a community approach by the people and for the people which would develop the country as an entity.

This new approach had far-going consequences. Whereas in pre-independence days the economic structure was predominantly agrarian with an accent on exports, entirely western-organized in its apparatus, the new state wanted a greater diversity in its economic resources, wanted to reduce its paramount dependency on western-dominated exports and, above all, wanted to raise the standard of living of its many millions, wherever possible by their own efforts. It is obvious that all this could not be achieved overnight. During the 10 years since the start of the Republic on 17th August, 1945 and, in particular, since the transfer of sovereignty in December, 1949 much has been achieved, but much is still to be done. In fact, the present stage can be described as a stage of transition wherein, gradually, the remnants of colonial economy are changed for a national system.

The new Republic had the wind in its sails during the Korea-boom. With soaring export-prices a large amount of foreign exchange came at its disposal. Huge plans were devised to restore the disrupted communications, to industrialise, to bring education on an adequate footing, to provide the populations with badly needed necessities and to develop the rural areas. It was a bitter irony that when many orders were placed abroad in order to provide for all these needs on a moderate scale, the slump in world-market prices during the post-Korean period brought Indonesia in an extremely tight corner. It was proved once again that as

---

recent fall in internal prices exports should recover while the improvement in world tea prices during the last few months promises a higher return on tea exported. The barter agreements with Burma and Japan should allow for a larger volume of sugar exports and China is also purchasing more sugar from Indonesia so that here, too, export earnings should rise. Earnings from other minor agricultural export commodities, notably coffee, are not likely to show much improvement because of unfavourable prices and the abolition of the inducement system may discourage sales of some 'weak' commodities. But the rise in earnings from more important items is likely to offset any decline here. On the whole, the outlook for Indonesia's exports is favourable.

Oil: Agreements with Stanvac and Caltex.—Earnings from oil, over which, it should be remembered, the Indonesian government does not have full control, were slightly lower in the first half of 1955 than in the same months of 1954 despite an increase in the volume of exports.

Indonesian Exports of Petroleum and Products: Jan.—June

	Volume: '000 met. tons	Value: million Rps.
1954	4,443.7	1,197
1955	4,589.9	1,189

Some information about the agreements signed last year with Stanvac and Caltex to replace the old let alone agreements was published in the Annual Report of the Bank Indonesia. Both companies retain control of their foreign exchange earnings, Stanvac on condition that it invests between $70 and $80 million over the next four years or hands over an equivalent amount of foreign exchange to the Foreign Exchange Fund, Caltex on condition that it makes available to the Fund $60 million in dollars or other foreign exchange over the next five years. Stanvac recently announced that it would make a beginning on its investment programme which was originally reported last January by spending $20 million on the modernization of its refinery near Palembang.

FUTURE PROSPECTS

In the last two months the economic outlook in Indonesia has been brighter almost than at any time since the devaluation of 1952. Import restrictions and a better export market for rubber have restored the trade balance and the new government is successfully tackling those problems which the previous government let slide with such disastrous results. It could normally be assumed that this improvement would gradually lead to an increase in domestic production, both agricultural and industrial, and an expansion of trade with Indonesia. But for the moment the government must keep a tight rein on imports till the foreign exchange situation has been further restored, and by the time that has happened a new government will be in office. Then all the frustrations, inefficiency and corruption of the last two years could appear again.

long as our country had to be dependent on unstable world-market for its economic development, it was building on unsafe soil.

It goes without saying that the 1953 slump had serious repercussions on internal affairs too, in particular on the budgetarian position. Here again, a great difference with pre-independence days came to the fore. Whereas in the colonial period a budgetarian deficit was overcome by cutting drastically the expenditure even at the cost of development, this axe could not be handled by the national government, anyhow not to the same extent. For instance, as mentioned before, one of the greatest deficiencies, if not the most important of all, was the lack of trained personnel in every walk of life. In order to fill this gap an extensive education-drive has been organized in the country and by training young men abroad. This had to be continued under all circumstances for the simple reason that, whereas Indonesia lacks indigenous capital, it can only make up for this by well-organized educational and training systems by which its promising younger generation can acquire the required knowledge and skill.

It will be evident from the above that Indonesia has been up against heavy odds. It is easy to point out shortcomings and errors of judgement, but, in fact, it is far more striking what has been accomplished during the past years, often under extremely difficult circumstances.

* * * *

During the pre-independence period Indonesia's foreign trade found its way largely via the metropolitan centre, the Netherlands, and other western markets. After the transfer of sovereignty Indonesia had to plan and develop its own foreign trade policy within the frame of (a) its own foreign policy and (b) its national economic policy.

Indonesia terms its foreign policy as "independent" and "active." By "independent" is meant a policy of non-alignment with regard to powerblocks or power policy. By "active" we mean the effort to work energetically for the preservation of peace and the relaxation of tensions. In terms of foreign trade policy these principles indicate that Indonesia wants to extend its trade to any country in the world on the basis of mutual benefit. It also indicates that Indonesia wants to co-operate in the economic field with all countries to promote common interests on the basis of friendly relationship. Consequently, Indonesia has negotiated during the past five years a number of trade-agreements and payments-agreements with countries scattered over the globe, irrespective whether they are aligned with a power-block or with no block or group at all.

This policy has been under criticism as running counter to the present general tendency which turns away from bilateralism. When one looks closer at the trade and payments-agreements concluded by Indonesia, it is evident that this criticism does not hold water. What Indonesia does is arranging and regulating in some general formula the commercial relations with trade-partners concerned. The quotas of goods for export and import, enumerated in the annexes attached to the agreements, represent no more than a fair commercial estimate of possibilities regarding the exchange of goods in both directions. They are not meant and are never regarded as commitments. The realization of these estimates depends on such commercial factors as price, quality and terms of delivery.

Indonesia, therefore, uses bilateral trade-agreements as a means to expand its export-trade and to diversify its markets as well as its sources of supply of essential imports. This in no way justifies the presumption that Indonesia is basing its foreign trade policy on bilateralism as such.

As for international cooperation, Indonesia has taken an active part in such international bodies and institutions as G.A.T.T., the International Monetary Fund, E.C.A.F.E. and the Colombo Plan. Moreover, Indonesia is an associate member of E.P.U. In accordance with Indonesia's national economic policy our Government is endeavouring to establish and develop in Indonesia markets of our own produce. Tea auctions are held in Djakarta the scope of which will undoubtedly be extended in the near future. Similarly, sugar is sold by the single-seller NIVAS to whomever makes the highest bid. The selling-policy of the Copra-Fund is based on the same principle. It is often suggested that Indonesia should do better by continuing the old practice of sending its export-products to the main world-market and have them sold and auctioned there. This might be so in some cases, but it would also mean that Indonesia would leave the say over its agricultural produce to others, thus continuing the state of dependency on foreign markets which in the past often resulted in manipulations disadvantageous to the producing country. In fact, Indonesia does not object in principle to sell its products in world-markets, but it wants to do this only in free competition and with direct delivery to the country of destination.

Another aspect of Indonesia's national development is that it wants its foreign trade to be handled, as much as possible, by its own nationals. This desideratum is a very natural one and fully in accordance with what we notice all over the world. Gradually a class of competent merchants is developing. This, however, is a process which takes considerable time and usually one has to learn at some cost. Knowledge has to be acquired and organization to be built up. In recent years considerable progress has been made, but much is still to be done. The efforts the Indonesian Government is making to advance trade by its own nationals is often taken as proof of an anti-Western policy. This is certainly a misinterpretation caused by lack of understanding of the change in circumstances. Indonesia is not anti-West; it is pro-Indonesia and pro-Asia, the Continent to which its archipelago belongs. It wants to follow its own destiny on the basis of the Pantya Sila, or five principles, enacted in its Constitution, and it wants to develop its large archipelago in the interest of its own nationals.

This does not exclude in any way co-operation with others. On the contrary, the Indonesian Government, although convinced that the main effort in developing the country must be made and will be made by Indonesian nationals, is equally aware that cooperation with others is indispensable. It is natural that for economic co-operation Indonesia looks in the first place to its neighbours and those with whom it has much in common, the Asian and African countries. The fruitful discussions at the recent Asian-African Conference at Bandung have opened further prospects for economic co-operation which certainly will be pursued in the near future.

Besides, there remains a wide field for co-operation with countries outside the region, as the Final Communique of the Bandung-Conference has made quite clear. It is, however, essential that Western enterprise in their dealings with Indonesia, whether in or outside the country, keep well in mind that it is the new Indonesia they are dealing with; that, therefore, they have not merely to abide by the laws and regulations of the country, but have to show understanding for its trade policy and national interests.

* * * *

The scope of this article does not permit to go into details on present import-and export-regulations. The already complicated system of licensing, largely an inheritance of the past, had in recent years to be amended and extended in view of the unfavourable terms of trade, i.e. the ratio of exports to imports during recent years, together with the budget and monetary difficulties the Indonesian Govern-

ment has been confronted with. All this has to be considered as problems inherent to the period of transition Indonesia is passing through. In fact, the Government should like—as much as anybody else—to reduce and simplify the licensing system as soon as circumstances will permit.

On the other hand, there are many signs of real progress. Compared with pre-independence days the Indonesian people are now better fed, better clothed and far better educated. The younger generation is getting ready for the gigantic task of developing the country into a welfare state, not comparable with the high standard of living of the West, but enabling the people to live without want. Gradually the great resources of soil and labour will benefit the country as an entity, thus enabling Indonesia to play an important part in the economy of Asia and of the world at large. For this the present generation is laying the foundations by its strenuous efforts. Mistakes there will be made, errors of judgement may happen, but the spirit of "gotong-rojong" (mutual assistance), of endurance and preseverance which brought the Indonesian people over so many obstacles in the past, will certainly bear fruit in years to come.

REPORTS FROM TOKYO

Abolition of L.U.A. for Long-Term Transactions

Ministry of Finance decided to abolish the application of "Letter of Undertaking and Authorization" for long-term transactions exceeding six months as from Dec. 20, and notified their decision to 35 foreign banks concerned. This step is interpreted to indicate further normalization of the nation's foreign exchange transactions. L.U.A. is a document submitted by the Japanese Minister of Finance to foreign banks which have accounts of both MOF and Japanese foreign exchange banks, allowing them to replenish the accounts of Japanese foreign exchange banks by transferring necessary amounts from the MOF account whenever the foreign currency deposits of the Japanese foreign exchange banks run short, and also promising them that the sufficient funds for such transfers will be kept in his current account at all times. This system was adopted on June 16, 1952 for dollar funds, and then on Mar. 2, 1953 for pound funds, because foreign currency holdings of the Japanese foreign exchange banks in those days were too small to freely transact with foreign banks.

The new decision of the Ministry exempted the following transactions from the application of L.U.A.: 1. Guarantee by Japanese foreign exchange banks for any liability of a third party for a period of more than six months. 2. Opening by Japanese foreign exchange banks of any letter of credit whose term of validity is more than six months. 3. Acceptance by Japanese foreign exchange banks of any draft, whose period of payment is more than six months after the date of issue. 4. Any borrowing by Japanese foreign exchange banks for a period of more than six months.

The reasons why the Ministry has taken the current step are: (a) The original purpose of L.U.A. was to facilitate primarily short-term transactions of Japanese foreign exchange banks, but the system has been applied to long-term transactions as well. It feared that the continuous application of the system to long-term transactions may excessively increase the credit of foreign banks to Japanese foreign exchange banks, and thus disturb the financial order of the country. (b) Though abnormal, this system was taken to meet the unsettled economic situation after the war, and so it should be gradually abolished today when the Japanese economy has been normalized. (c) The increasing foreign exchange holdings of the nation through the expansion of exports as well as the improving financial condition of Japanese foreign exchange banks through the normalization of the nation's money market have made it unnecessary to observe such a system. (d) Keener competition among foreign banks of late has made them improve their services to Japanese foreign exchange banks, which made the modification of the L.U.A. system possible.

Export of Vessels

Japanese shipbuilders booked during October the following orders from abroad for oil-tankers and freighters: 36 ships of 530,810 gross tons (829,270 deadweight tons) for the contract value of $127,235,051, establishing an all-time high in the annals of Japanese shipbuilding. The contract amount actually overtopped the total value of orders for ships received from overseas during the whole year of 1954 amounting to $126,000,000. Such an increase in the acceptance of foreign orders for exportable ships is attributable to the fact that shipbuilding companies have lately been able to figure out, from the clarified government shipbuilding program, how much surplus they have in their building capacity.

The total of exportable ships approved by MITI during the past seven months are 91 ships of 1,349,165 gross tons or 2,090,470 deadweight tons for the contract value of $310,281,200.

Breakdown of the October orders is as follows:

Categories	Number	Gross tons	Deadweight tons
Oil-tankers	21	387,850	614,900
Freighters	14	113,460	169,370
Others	1	29,500	45,000
Total:	36	530,810	829,270

Exports and Imports in October

According to the Finance Ministry statement based on customs statistics, foreign trade in October showed an unfavorable balance of $13.6 million with exports of $188.8 million and imports of $202.4 million. Exports' growth was $12.5 million over the previous month or 7.1 percent, but imports grew much larger by $22.0 million or 12.2 percent, raising the import excess by $9.5 million. Higher export was chiefly accounted for by the active sale of machinery (30.4% up from September), and food & beverages (17.1% up). Higher import was mainly caused by brisk purchase of machinery (41.5% up), non-metal minerals (35.1% up), textile materials (23.4% up), and mineral fuels (22.5% up).

Export of iron & steel amounted to $21.9 million (4.6% down from the preceding month), occupying 11.6 percent of the total exports, which was followed by cotton fabrics (11.3% of the total exports: 9.9% up), ships (6.4%: 71.3% up), clothes (5.5%: 8.8% down), fish (4.7%: 31.5% up), spun rayon fabrics (4.3%: 7.4% up), and non-ferrous metals (3.2%: 4.6% down). Biggest import item was raw cotton, which amounted to $26.4 million (36.3% up) or 13.1 percent of the total imports. Other important items were petroleum (9.6%: 16.1% up), rice (6.7%: 96.0% up), wheat (5.7%: 27.1% down), wool (4.9%: 0.5% down), iron ore (4.2%: 4.0% down), and crude rubber (3.6%: 53.4% up).

Exports and imports during the month under review follow:

(Value: in $1,000)

Exports	Unit	October Quantity	October Value	September Quantity	September Value
Food & beverages			13,636		11,647
Fish	tons	15,941	8,911	12,134	6,828
Tea	1,000 lbs	5,000	1,439	6,034	1,778
Textile & products			70,139		68,742
Raw silk	bales	9,609	5,561	10,772	6,378
Cotton yarn	1,000 lbs	2,091	1,091	1,819	1,844
Rayon filament yarn	,,	739	353	1,191	583
Rayon staple yarn	,,	3,481	1,478	2,734	1,119
Cotton fabrics	1,000 sq. yds.	105,000	21,244	93,424	19,333
Silk fabrics	,,	2,604	1,375	2,565	1,281
Rayon fabrics	,,	32,260	5,844	30,868	5,556
Spun rayon fabrics	,,	51,156	8,111	50,277	7,553
Clothes			10,450		11,458
Chemicals			6,589		6,494
Chemical fertilizer	tons	36,406	2,194	28,093	1,722
Non-metal			8,206		7,889
Cement	tons	129,852	2,347	127,958	2,367
China ware			3,878		3,667
Metal & products			33,939		34,769
Iron & steel	tons	150,782	21,939	166,083	23,006
Non-ferrous metals	,,	6,468	6,125	7,214	6,419
Metal products			5,850		5,344
Machinery & transport equipment			26,606		20,406
Textile machines & parts			1,506		942
Sewing machines & parts		147,875	3,347	145,915	3,258
Ships		37	12,022	25	7,017
Others			29,682		26,303
Wood	M3	52,271	3,356	36,575	2,392
Toys	tons	4,834	4,322	4,819	4,503
Total:			188,797		176,250

(Value: in $1,000)

Imports	Unit	October Quantity	October Value	September Quantity	September Value
Food & beverages			49,019		45,239
Rice	tons	81,126	13,489	42,762	6,883
Barley	,,	62,253	3,900	51,555	3,617
Wheat	,,	160,454	11,531	215,583	15,811
Sugar	,,	64,508	6,828	80,934	8,314
Textile materials			40,933		33,158
Rayon pulp	tons	4,618	981	4,101	889
Wool	1,000 lbs	13,264	9,875	12,051	9,925
Raw cotton	,,	80,963	26,447	58,741	19,400
Hemp & other textile materials	,,	14,176	1,711	11,167	1,322
Metal ores			19,428		20,242
Iron ore	tons	548,811	8,458	591,837	8,806
Iron/steel scrap	,,	140,224	7,136	163,310	8,283
Non-ferrous metal ore	,,	103,120	3,272	94,681	2,764
Non-metal minerals			11,122		8,233
Phosphate rock	tons	173,544	3,906	111,419	2,386
Potash salt	,,	78,465	3,439	74,162	3,322
Salt	,,	228,775	2,611	146,446	1,547
Mineral fuels			25,656		20,944
Petroleum	tons	286,692	6,011	197,503	3,828
Coal	kl	1,000,509	19,386	914,452	16,694
Other raw materials			25,847		25,747
Raw skins	tons	4,320	1,528	6,199	2,264
Soya beans	,,	39,480	4,669	60,891	7,192
Crude rubber	tons	7,682	7,294	5,528	4,756
Wood	M3	166,550	4,903	163,222	4,706
Chemicals			6,619		6,442
Machinery & transport equipment			13,372		9,453
Automobiles		389	458	434	406
Others			10,418		10,953
Total:			202,414		180,411

Banking Situation in October

Net deposits and loans of all commercial banks did not show any noticeable change in October. Rise in deposits, however, was nearly four times bigger than that of the loans, and banks could consequently refund a portion of their borrowings from the central bank. Deposits as of Oct. 31 totaled Y3,425,590 million, or Y37,129 million less than the previous month, about the same as the drop of Y36,355 million recorded for the corresponding month a year ago. Net deposits amounted to Y2,916,621 million, or Y19,278 million more than September—nearly half as much as the rise of Y36,962 million for October last year. In the race of deposits-increase, country banks ran ahead of other banks chiefly due to the flow of money into farming villages for the purchase of rice through the Foodstuff Control Special Account.

Bank loans showed an increase of only Y5,853 million —some one-fourth of the rise of Y22,253 million recorded for the like month a year before—amounting to Y3,036,000 million at the end of October. Such dullness is attributable

to, a) Many industries have become financially sound enough to meet their operating funds by their own deposits with commercial banks, b) There was no special fund demand in October, and c) The spinning mills paid back a conspicuous portion of their borrowings to their bankers during the month.

Deposits and loans of commercial banks are tabulated hereunder:

	(in million yen) Balance as of Oct. 31
Gross Deposits	
City Banks	1,986,554
Country Banks	1,066,144
Trust Banks	96,821
Debenture Issuing Banks	276,571
All Commercial Banks:	3,425,590
Net Deposits	
City Banks	1,580,529
Country Banks	1,024,400
Trust Banks	79,020
Debenture Issuing Banks	232,672
All Commercial Banks:	2,916,621
Loans & Discounts	
City Banks	1,562,015
Country Banks	868,316
Trust Banks	86,195
Debenture Issuing Banks	519,474
All Commercial Banks:	3,036,000

Cement

Prosperity in the cement industry has been very conspicuous. For the first time since the end of the war, stockpiles outgrew the 600,000-ton level as of the end of October. Unusual growth of the stockpiles is attributed to rapid increase in production, which has exceeded the active sales. Production rose to 916,746 tons whereas delivery amounted to 886,520 tons in October, leaving a stockpile of 606,253 tons, including 239,858 tons in cement and 366,395 tons in clinker. Actually, stocks are larger.

Stimulated by the incessant demand after the war, cement companies did their best to increase their productive capacity so much so that their total capacity of 8,200,000 tons per year in 1951 was brought up to 12,500,000 tons as of June this year, which is twice as much as the former all-time high achieved in 1940. Demand reached a peak sometime last fall, which was reflected in the price. The price, which had been kept around Y8,800 per ton since March 1952 came down to Y8,300 in March this year and further down to Y7,000 these days. People in the industry, however, are not pessimistic about the recent fall of price because they believe that the business in general will improve soon to become a favorable factor to boost the cement price again.

Gasoline Sales

Foreign exchange budget allotted for the import of petroleum has recently been increased by $20 million, which promises a further increase in production of gasoline during the months to come. Contrary to this state of affairs, demand for the product has not been showing improvement. Not only that, but also there is a sign suggesting a decline in the delivery of gasoline in the last quarter of the current fiscal year beginning from January next year. Result will be a sharper sales war and lower price in the open market. To make matters worse for the dealers, freight of ocean-going oil tankers has greatly been raised. In some cases, the freight has now been more than doubled since the beginning of the year. Cost of crude oil thus became higher, and yet the dealers will have to try to sell their products at lower prices.

Demand-and-supply picture of gasoline in recent months: Against the total sale of 2,320,000 kilo-litres last year, monthly average from January through September this year was 200,000 kilo-litres, which is expected still to rise to 246,000 kilo-litres during the October-December period. Total output last year was two million kilo-litres, or 500,000 kilo-litres for a quarter year on average, against which actual production this year was 530,000 kilo-litres in January-March, 590,000 kilo-litres in April-June, and 570,000 kilo-litres in July-September, showing about ten percent increase over last year. Production will still be enlarged after October, possibly to create an over-supply situation, together with the finished product imported from abroad. Reflecting the uneasy situation, market price is showing a downward trend. In a certain government purchase of gasoline, a successful bidding price was Y30,500 per kilo-litre in August, which came down to Y29,940 in September and further down to Y28,500 in October.

CURRENT JAPANESE STATISTICS

Time	(1) Bank of Japan Report: Note Issue	(1) Loans & Discounts	(1) Gov't Bonds	(2) Report of All Banks: Deposits	(2) Loans & Discounts	(3) Tokyo Stock Price	(4) Mining & Manufacturing Indexes: Production	(4) Inventory	(5) Consumption Level Indexes: Urban	(5) Rural	(6) Department Store Sales	(7) Price Indexes: (a) Tokyo Wholesale Price	(b) Tokyo Consumer Price	(c) Export Price	(c) Import Price
	in million yen			in million yen		in yen	1950 average = 100		June 1950 = 100		in million yen		June 1950 = 100		
1954 September	515,346	389,845	200,379	2,825,818	2,785,488	352.76	182.3	173.8	130.3	155.0	11,126	149.3	143.9	118.5	103.9
October	529,814	356,769	288,562	2,789,463	2,807,741	340.50	186.8	167.4	137.9	166.2	17,300	149.0	145.8	119.3	103.5
November	542,137	298,945	378,177	2,884,513	2,835,702	324.51	187.5	162.2	137.4	172.1	17,384	150.4	142.8	119.7	104.7
December	622,061	243,374	483,573	3,036,687	2,911,968	337.14	192.3	151.1	211.1	219.3	36,758	149.3	141.5	121.0	106.3
1955 January	561,410	236,793	441,003	3,001,309	2,893,523	370.74	175.3	149.4	130.3	182.3	12,830	149.9	142.8	121.1	106.8
February	546,922	262,094	399,133	3,024,696	2,908,920	374.82	183.2	145.9	132.1	165.6	12,070	150.5	143.2	122.7	106.4
March	530,703	252,130	482,238	3,161,431	2,926,600	354.69	199.6	141.3	142.8	182.9	17,326	151.0	142.5	124.3	105.7
April	550,533	205,153	429,798	3,139,498	2,923,782	351.39	199.1	147.2	138.2	169.5	16,626	149.6	144.7	125.3	104.9
May	522,201	204,973	408,378	3,195,634	2,937,268	349.83	196.2	151.5	134.7	151.0	14,788	148.4	143.2	124.0	105.6
June	532,674	211,813	374,112	3,218,722	2,959,475	354.47	197.7	155.7	143.8	145.6	14,712	146.9	142.2	123.1	104.9
July	537,881	184,425	384,445	3,257,274	2,986,291	355.56	200.3	159.2	168.9	155.1	19,311	147.6	140.9	124.1	106.0
August	540,848	164,416	413,333	3,304,048	2,999,230	377.48	203.3	149.3	135.9		14,238	148.4	142.4	124.7	106.2
September	529,846	143,456	393,214	3,462,719	3,030,147	386.16						148.7	141.4	124.5	105.8

Notes: (1) End of month. (2) End of month; Bank of Japan survey (all banks excluding Bank of Japan). (3) Tokyo Securities Exchange survey (Dow Jones average of 225 descriptions). (4) Ministry of International Trade and Industry survey. (5) Economic Planning Board survey. (6) Ministry of International Trade and Industry survey (covering department stores with 50 or more employees). (7) (a) Bank of Japan survey; (b) Prime Minister's Office survey (simple arithmetic average of retail prices taken from retailers covering about 200 commodities with 250 specifications); and (c) Bank of Japan survey (contract price: export-F.O.B. import-C.I.F.).

Time	(8) Letters of Credit: Export	(8) Import	(9) Foreign Trade: Exports	(9) Imports	(9) Excess of Imports (—) or Exports (+)	(10) Procurement Contract Award: Total	(10) Goods	(10) Services	(11) Foreign Exchange: Receipts	(11) Payments	(11) Excess Receipts (+) or Payments (—)	(12) Foreign Exchange Holdings: Total	(12) Government	(12) Bank of Japan	(12) Foreign Exchange Banks
	in million dollars		in thousand dollars			in thousand dollars			in thousand dollars			in million dollars			
1954 Septembe	135	101	134,155	147,577	— 13,422	5,398	2,538	2,860	194,811	156,142	+ 38,669	910	773	51	86
October	146	129	161,811	165,530	— 3,719	7,832	3,251	4,581	210,686	157,221	+ 53,464	956	822	51	83
November	145	99	140,502	150,399	— 9,897	5,618	3,416	2,202	193,692	147,425	+ 46,266	1,010	869	51	90
December	158	169	190,022	172,945	+ 17,077	10,109	3,294	6,815	226,963	144,884	+ 82,078	1,104	950	51	103
1955 January	135	158	119,239	174,318	— 55,079	5,934	3,633	2,301	191,541	155,644	+ 35,879	1,109	970	51	88
February	140	150	146,665	174,257	— 27,592	9,257	3,526	5,731	176,575	172,184	+ 4,390	1,121	981	51	89
March	138	146	166,487	227,871	— 61,384	14,920	4,535	10,385	209,375	167,542	+ 41,833	1,158	952	109	97
April	150	147	152,231	217,591	— 65,360	13,692	5,939	7,753	206,509	200,153	+ 6,356	1,171	930	109	132
May	160	162	147,798	214,976	— 67,178	19,662	12,730	6,932	195,346	196,661	— 1,314	1,175	919	110	146
June	136	151	159,696	213,056	— 53,360	24,596	11,133	13,463	226,527	173,211	+ 53,316	1,241	911	180	150
July	166	139	159,934	203,684	— 43,750	31,859	3,348	28,511	223,334	178,575	+ 44,758				
August	173	161	175,995	207,627	— 31,632	8,979	3,769	5,210	234,989	187,006	+ 47,983				
September	161	145	176,247	180,411	— 4,161	9,467	4,916	4,551	257,685	175,727	+ 81,958				

Notes: (8) Bank of Japan survey. (9) Ministry of Finance survey. (10) Economic Planning Board survey. (11) Bank of Japan survey (total of purchases and sales of foreign exchange by Bank of Japan, covering visible and invisible trade). (12) Ministry of Finance survey.

FINANCE & COMMERCE

HONGKONG EXCHANGE MARKETS

For the week of 5th—10th December, 1955.

U.S.$

Dec.	T.T. High	T.T. Low	Notes High	Notes Low
5	$586¼	585¾	581⅞	581¼
6	586⅜	586⅛	582	581⅝
7	586½	586¼	582	581¾
8	586⅝	586¼	582¼	581¾
9	587¼	586¾	582¾	582⅛
10	587½	587⅛	583	582½

D.D. rates: High 585¼ Low 583¾.

Trading totals: T.T. US$2,550,000, Notes cash US$410,000 and forward US$1,670,000, and D.D. US$340,000. The market was steady with rates higher on better buying all round. In the T.T. sector, funds from Korea, Japan, Indochina and Bangkok were being acquired by gold and general importers and switch exchange operators. In the Notes market, shippers continued their cash buying but they were not very successful this week. Interest for change over in fictitious forward favoured sellers and amounted to 60 HK cents per US$1,000. Positions taken figured at US$2¼ millions per average day. In the D.D. sector, the market was rather quiet.

Yen: Cash quotations were $1,475—1,460 per 100,000. Only a few millions business transacted in forward, and change over interest fixed at $4.41 per 100,000 in favour of buyers.

Far Eastern Exchange: Highest and lowest rates per foreign currency unit in HK$: Philippines 1.95—1.94, Japan 0.01465—0.01445, Malaya 1.879, Indochina 0.074—0.0714, and Thailand 0.267. Sales: Pesos 385,000, Yen 95 millions, Malayan $320,000, Piastre 8 millions and Baht 4½ millions. The market remained active, though business declined somewhat.

Chinese Exchange: People's Bank Yuan notes were quoted at HK$1.50 per Yuan. Taiwan Bank Dollar notes quoted $172—167 per thousand, and remittances at 138—137.

Bank Notes: Highest and lowest rates per foreign currency unit in HK$: England 15.29—15.22, Australia 12.30, New Zealand 13.75—13.70, Egypt 14.80, South Africa 15.35—15.30, India 1.17375—1.17125, Pakistan 0.995—0.985, Ceylon 0.98, Burma 0.64—0.62, Malaya 1.826—1.824, Canada 5.82—5.81, Philippines 1.965—1.93, Macao 1.00, Switzerland 1.35, France 0.015, Vietnam 0.085—0.083, Indonesia 0.165—0.155, Thailand 0.256—0.251.

Gold Market

Dec.	High .945	Low .945	Macao .99
5	$253⅝	253⅜	
6	253½	253¼	Low 263½
7	253½	253¼	
8	253⅝	253¼	
9	254	253⅝	
10	254⅜	253⅞	264 High

The opening and closing prices were 253½ and 254¼, and the highest and lowest were 254⅜ and 253¼. The market was quite active in import and export tradings and undertone was steady. Interest for change over favoured buyers and amounted to 60 cents per 10 taels of .945 fine. Tradings totalled 42,600 taels or averaged 7,100 taels per day, and positions taken figured at a daily average of 23,000 taels. Cash sales totalled 28,570 taels (2,070 taels listed and 26,500 arranged). Imports were all from Macao and amounted to 18,000 taels, a shipment of 48,000 fine ounces arrived Macao. Exports figured at 17,500 taels (8,500 to Bangkok, 6,000 to Singapore, 2,000 to Indonesia, 1,000 to Korea). Differences paid for local and Macao .99 fine were $12.30—12.20 and 12.00—11.70 respectively per tael of .945 fine. Cross rates worked in the Exchange were US$37.76—37.75. A total of 33,600 fine ounces were contracted at 37.75 C.I.F. Macao.

Silver Market: The market was quiet but easy, with rates down to proper levels, but because of few enquiries business was dead. Bar silver quoted at $5.90—5.85 per tael with 700 taels traded, $ coins quoted at 3.75—3.72 per coin with 500 coins traded, and Twenty Cent coins quoted at 2.86—2.85 per 5 coins with 1,000 coins traded.

CURRENT NEW YORK BANKNOTE QUOTATIONS

Country	Official Exchange Units Per US$1	Banknote Rate Units per $1
Austria—shillings	25.31	26.50
Argentina—pesos	18.00	33.33
Belgium—francs	50.00	50.25
Bolivia—bolivianos	190.00	3880.00
Brazil—cruzeiros	Free	67.50
Burma—kyat	4.76	8.77
Ceylon—rupee	4.76	5.48
Chile—pesos	200.00	670.00
Colombia—pesos	2.50	4.10
Denmark—kroner	6.92	7.09
Ecuador—sucre	15.00	19.04
Finland—markka	231.00	355.00
Formosa—yuan	15.55	40.00
France—franc	350.00	384.00
W. Germany—mark	4.19	4.22
East Germany—ostmark	4.19	15.00
Honduras—Lempira	2.00	2.04
Hongkong—dollar	5.71	5.81
Hungary—forint	11.60	40.00
India—rupee	4.76	4.87
Indonesia—rupiah	11.40	35.75
Italy—lire	625.00	633.00
Japan—yen	359.00	375.00
Malaya—dollar	3.03	3.19
Mexico—peso	Free	12.45
Netherlands—guilder	3.78	3.81
Nicaragua—cordoba	5.00	8.00
Norway—kroner	7.13	7.62.
Pakistan—rupee	4.76	5.80
Peru—soles	Free	19.00
Philippine Republic—peso	2.00	2.94
Portugal—escudo	28.60	28.65
Spain—peseta	38.95	43.50
Sweden—Kroner	5.17	5.17
Switzerland—franc	Free	4.28
Thailand—baht	12.65	21.50
Turkey—lira	2.80	8.75
Vietnam (South)—piastre	35.00	74.50
Yugoslavia—dinar	300.00	725.00

The following are quoted in dollars and cents per one unit:—

Australia—pound	$2.24½	$2.10
Egypt—pound	2.87	2.57
Great Britain—pound	2.80	2.63
Ireland—pound	2.80	2.70
Israel—pound	8.55	.50
New Zealand—pound	2.80	2.50
South Africa—pound	2.80	2.67

HONGKONG SHARE MARKET

Both enquiry and turnover rose last week and prices were somewhat firmer. Many investors are attracted although current prices are almost generally considered as having reached the peak. Buying for yield consideration does not appeal to many new investors; they prefer to speculate on rising quotations and then to take their profits—if possible. New money is still trickling in but constitutes a not always welcome addition. Brokers are however satisfied as more contracts result. The old question of reducing the brokerage of 1%, both on sales and on purchases, is still, at times, agitating the minds of investors but as many brokers have privately arranged to remit about 50% of the brokerage to clients, thus cutting in effect the brokerage to about ½%, not much fuss is being made these days over the fee.

Total turnover last week increased to $3.4 million from $2.6 million in the previous week. HK Bank registered a gain of $15 and HK Docks improved by $2. Popular shares during the week included Wheelocks, Providents, Hotels, Lands, Electrics, Telephones, Cements, Textile and Amal. Rubber. Nanyang interim dividend was a great disappointment which depressed shares from $8.50 to $7.95; buyers offered only $7.85 at the end of the week. Docks went up to $30 but a large number of big transactions were done at $29.70/$29.90; Lights edged up slightly on Tuesday to $21.70 but declined to $21.40 at the end of the week; Dairy Farms remained firm at $18.40 in spite of low buying offers during the middle of the week. On the whole, the market was active throughout the week but buying offers for many popular shares were lower than prices at the end of the previous week.

Share	Dec. 2	Dec. 9	Up or Down
HK Bank	1670	1685	+ $15
Union Ins. ..	915	915	steady
HK Wharves ..	71s	71n	steady
Wheelocks	8.30	8.25s	— 5¢
Providents	14.60s	14.40b	— 20¢
HK Docks ..	28	30	+ $2
Hotels	17.40	17.30s	— 10¢
Lands	60	59b	— $1
Realties	1.85	1.875	+ 2½¢
Trams	22½	22.30	— 20¢
Yaumatis	102	102s	steady
Lights (f.p.)..	21.50	21.40	— 10¢
Lights (p.p.)..	16.20s	16s	— 20¢
Electrics	39.25	39.75	+ 50¢
Telephones	32	32	steady
Cements	33.75	34.25	+ 50¢
Dairy Farms ..	18.40	18.40	steady
Yangtze	6.50	6.30b	— 20¢
Watsons	13.10	13.20b	+ 10¢
Nanyang	8.40	7.95s	— 45¢
Textile	5.90	5.90	steady
Amal. Rubber .	1.80	1.90	+ 10¢

Monday: Except for a further rise in Docks and an improvement in Rubber shares as a result of higher advices from Singapore for the commodity, the market was dull and featureless. The turnover for the day amounted to $470,000. **Tuesday:** There was a slight improvement in the volume of business and fresh gains in Docks. Nanyang Cotton Mills on the other hand fell sharply owing to disappointment in the interim dividend announcement of 30 cents per share. Rubbers were again firmer in sympathy with the advance in the price of raw rubber. The undertone was steady and the turnover amounted to approximately $1,020,000. **Wednesday:** The market ruled steady during the half-day session with only a small amount of business. The undertone remained steady and the turnover amounted to approximately $320,000. **Thursday:** Business on the market was confined mainly to popular counters. Docks and Telephones constituted the bulk of the business. The undertone continued steady with prices fluctuating within narrow limits. The turnover amounted to approximately $940,000. **Friday:** In a day of moderate trading, Docks again attracted most attention and tacked on further gains on rumours that an agreement had been reached regarding a sale of property. Trams were also well supported although the price remained unchanged. Elsewhere business was on a light scale and the market closed steady. The turnover for the day amounted to approximately $760,000.

SINGAPORE SHARE MARKET

With the exception of the Loan section the tone of the market was quite firm. Good turnover in Industrials continued, Rubber shares had a much wider enquiry and selected Tins were strong.

No new taxes were announced in this week's Federation Budget. However, a supplementary Budget will be introduced in the first half of 1956. The High Commissioner, Sir Donald MacGillivray, emphasised that the Federation Government felt that overseas capital and private enterprise had just as important a role to play in a new and independent Malaya as they had in the past. He re-affirmed the policy to give industry and enterprise fair and considerate treatment whereby the overseas investor can, after payment of local taxes and obligations, remit to his country funds for the payment of dividends and for the return of his capital. In return, the Government hoped that the overseas enterprises would train young Malayans for technical and managerial posts, re-invest here a reasonable proportion of profits and finally, transfer to Malaya whenever possible the effective seat of the direction of an undertaking whose sole or principal activity is in this country.

Wearnes dominated the Industrial section with big exchanges between $3.07½ and $3.05. Robinson & Co. Ords. had daily transactions mostly at $2.32½ and also Fraser & Neave from $1.72 to $1.73½. Hongkong Banks had a considerable turnover on the Hongkong Register at $890 and on the London Register at £98½ and £99 including Stamp. The possibility of the settlement of the Singapore Traction Co. strike led to renewed demand and London accepted shares from 27/- to 27/6. Straits Times had inquiry at $2.90, Straits Traders were taken from $24 to $24½ and Sime Darby were active at $1.87½ and $1.85. Malayan Cements improved to $1.67½ and Malayan Collieries to 92½ cents.

The rising metal price, which reached its highest level since May 1953, induced fresh buying of selected Tin shares. Sizeable activity in Petalings continued from $4.25 to $4.20 to $4.27½ again. Lingui Tin were taken at $1.62½, whilst Kuchai on the publication of a final dividend of 100% advanced to $2.50. Sungei Ways, however, were easier with business from $3.35 to $3.30 cum 20% final and 10% interim. Buyers of Kuala Kampar raised bids to 31/9 cum 3/- before attracting sellers. Lower Perak had daily exchanges at 15/6 and 15/7½ cum 1/6, Takuapa Valley were taken at 20/6 and Laruts at 8/6 and 8/7½. Jelapangs fell 1/6 to 13/- before business resulted.

Ayer Hitam were taken from London at 25/4½, Kamunting at 10/4½ and Idris Hydraulic at 5/6.

Due to a firm commodity price and increased optimism as to its future,

HONGKONG AND FAR EASTERN TRADE REPORTS

Southeast Asia provided strong demand in the local market during the first 10 days this month while Korea sent here more enquiries than orders. Japan remained keen in China produce and scrap metals. China bought certain structural steels and some patent medicines. Taiwan purchased selective items only while Burma and the Philippines were quiet during the fortnight. Among the commodities, paper scored gains on nearly all items when cost went up; cotton yarn remained very popular and firm while rice and sugar were weakened by heavy arrivals.

TRADE DEVELOPMENTS

Restrictions: Exports of Hongkong manufactures to Norway require only Hongkong Export Licences. Consular invoices or certificates of origin are no longer necessary.

Rubber shares attracted more attention. Highlight of the section was the advance of Kempas from $1.65 to $1.90. In demand were Ayer Panas at $1.12½, Borelli at $3.02½, Ulu Benuts at 39 cents and 41 cents and Glenealy at $1.45. Benta had exchanges between $1.17 and $1.20, Indragiri at 33 cents, Lunas at $4.00 and $4.02½ and Pajam at $1.17½ to $1.21½ cum 25%. Bukit Sembawang were taken from London at 3/- and Jasin Malacca at 1/3¾.

Comparatively idle conditions prevailed in the Loan market.

Business Done 26th November—2nd December, 1955.

Industrials:—Fraser & Neave Ords. $1.73 to $1.72 and $1.72½, Gammons $2.52½, Hammer & Co. $2.55, Hongkong Bank (Colonial) $890, Hongkong Bank (London) £98½ and £99, Wm. Jacks $3.35, Malayan Cement $1.66 and $1.65 to $1.67½, Malayan Collieries 90 cents to 92½ cents, Metal Box $1.58½ and $1.60, Robinson Ord. $2.32½, and $2.35, Sime Darby $1.87½ and $1.85, Singapore Cold Storage $1.72½ cd. cb., Straits Times $2.90, Straits Traders $24.00, Singapore Traction Co. Ord. 27/- to 27/6, Union Insurance $486½ and $490, United Engineers Ord. $10.00, Wearne Bros. $3.07½ and $3.05.

Tins:—Kuchais $2.40 and $2.50 cd., Lingui $1.62½, Petalling $4.25 to $4.20, to $4.27½, Rantau $1.60, Sungei Ways $3.35 and $3.32½ cd., Austral Amal. 16/-, Jelapang 13/-, Kuala Kampar 31/9 cd., Larut 8/6 and 8/7½, Lower Perak 15/6 and 15/7½, Takuapa 20/6, Idris Hydraulic 5/6 and 5/4½, Kamunting 10/4½.

Rubber:—Ayer Hitam $1.10, Ayer Panas $1.12½, Bassett 65 cents, Batu Lintang $1.60 and $1.62½, Bukit Sembawang 3/-, Benta $1.17½ and $1.17 to $1.20, Borelli $3.02½, Connemara $1.12½, Glenealy $1.45, Indragiri 33 cents, Jasin Malacca, 1/3¾, Kempas $1.65 to $1.85, Lunas $4:00 and $4.02½, Pajam $1.17½ and $1.21½ cd., Sungei Bagan $2.15, Sungei Tukang 93 cents and 95 cents, Taiping 1/1, Ulu Benuts 39 cents and 41 cents.

Overseas Investments:—British—Distillers 24/0¾, English Sewing Cotton 28/9¾, Middlewits 13/6¾, Mineral Separations 16/4½, Standard Motors 9/1½.

Australian:—Broken Hill Props. A.40/11, Colonial Sugar Refining Co. A.£40/5/-, Commercial Bank of Australia A.18/3 and A.18/1, Heathorns A.43/7, Oil Search A.8/6, Peko A.7/7½ and A.7/9, Standard Motors A.16/3.

Freight: Freight rates for paper from Japan to Hongkong will be increased by 20% as from January 1956.

China Trade: There was an increase in the volume of barter trade between China and UK through Hongkong. China also negotiated for the export of rice to Malaya and other areas in SE Asia via Hongkong. The Soviet Exhibition held in Canton attracted more than 53,000 visitors from here and Macao; contracts concluded between Canton and Hongkong merchants who went there totalled over HK$40 million. On the local market China purchased certain patent medicines and structural steels.

Taiwan Trade: Purchases made by Taiwan in the local market consisted of selective items in metals, pharmaceuticals, and industrial chemicals; more Taiwan sugar reached here during the fortnight.

Japan Trade: Tokyo will increase iron ore import by 10% for the next fiscal year. Japan's cotton cloth exports during October reached 105-million square yards, of which more than 6½ million square yards were shipped here. Cotton yarn production in Japan will be cut by 16% for the 1st quarter next year. China produce and scrap metals constituted the main portion of exports to Japan.

Korea Trade: To encourage the export of Korean staples, Seoul announced that 25% of import foreign exchange would be allocated to exporters. Korea invited tenders for the supply of 6,000 metric tons of coal tar pitch and 20,000 tons of Portland cement. Korean purchases in Hongkong remained active particularly in paper and industrial chemicals; the trade will be further improved after December 10th when the 5th foreign exchange allocation will be available.

Indonesia Trade: Djakarta permitted imports of Japanese goods via Hongkong and Singapore for payment in Hongkong dollars, Strait dollars, or sterling, and added 5 more items—cement, wheat flour, milk, milk powder and iron wire nails—to the list of exclusive imports handled by Indonesian nationals only. Goods bought by Indonesia from here during the fortnight covered paper, cotton yarn, cotton piecegoods, enamelware, hardware, torch batteries, and rubber shoes.

Thailand Trade: Bangkok lowered export duty on rice and extended list of free imports to include refined sugar, cotton textiles, paper umbrella, silk piecegoods, as well as many kinds of paper, foodstuffs and machinery. Purchases by Thailand from here included iron wire nails, mild steel bars, corrugated galvanized iron sheets, cotton yarns, fertilizers, etc. These shipments showed increases as a result of Bangkok's relaxation of imports of Japanese goods and the availability of more foreign exchange in Thailand. During the fortnight more than 100,000 bags of Thai rice reached here.

Indochina Trade: Cambodia granted permission to traders there to conduct barter trade with Hongkong. Vietnam's imports for 1956 will include US$3.4 million for industrial chemicals, $5.9 million for paper and paper products, $42 million for textiles, $8.8 million for cotton yarns and $14.4 million for metals. Recent shipments from here to Indochina included substantial quantities of cotton yarns, textiles, sugar and wheat flour.

Philippine Trade: Regulations governing the imports financed with self-provided foreign exchange were under revision by Philippine authorities. Meanwhile trading with Hongkong remained sluggish.

Burma Trade: Burma increased next year's export quota for rice to 2 million tons. Rangoon invited tenders for the supply of corrugated galvanized iron sheets, asbestos roofing, 3-ply wood and fibre boards. Burma's purchases from here were insignificant due to her increased direct trade with China.

India Trade: India bought substantial quantities of structural steels from here. Exports from India to the local market were active including substantial quantities of cotton yarn, cotton piecegoods, tea, hemp, hides and leathers, vegetable oils, tobacco, shellac and gunny bags.

COMMODITIES

China Produce: Japan, S.E. Asia and Europe provided usual strong demand on the China produce market. Aniseed under keen demand, recorded substantial turnovers; prices failed to improve due to heavy stock. Maize improved on active local demand although purchases by Japan slowed down. Dried chilli advanced on strong demand from Singapore. Gallnut was low in stock and improved on orders from Japan. Dried ginger was favoured by Middle East, Near East and Africa; spun silk by Europe, Middle East, and Near East—both at steady prices. Sesame seeds recovered under renewed export demand while hemp seed remained quiet. Menthol crystal was favored by Indonesia but price dropped due to abundant stock; there were direct offers from China to India. Groundnut kernel found new buyers in New Zealand but more arrivals from Thailand weakened the market. Raw silk and silk wadding both declined; the former on account of bearish world market and the latter due to the slow down of demand. Citronella oil gained on continued export demand; woodoil dipped under new arrivals; camphor oil maintained steadiness on local demand and teaseed oil advanced on higher cost. Broadbean and green pea were bought by Japan

at steady prices; green bean, yellow bean, black bean, and string bean were bearish with limited local consumption.

Metals: The market was active with steady local and export demand. Structural steels were particularly favoured by Thailand, China, Taiwan, Korea, and Indonesia. Metal scraps continued to rise on keen demand from Japan. Black plate was short in stock and unable to meet enquiries from Korea. Black plate waste waste registered active turnovers. Mild steel plate, mild steel angle bars, and mild steel flat bars all moved up as overseas demand stepped up. Tinplate waste waste and mild steel round bars enjoyed steady local consumption. Other items improved were corrugated galvanized iron sheets on purchases by Indochina and Indonesia; copper wire due to short stock; ungalvanized iron pipes on sudden upsurge of speculative activities; ungalvanized iron wire on low stock and better demand from local contractors; aluminium sheets on short supply; tin on higher indent cost; and old cast iron on heavy demand from local manufacturers. Galvanized iron sheet, wire and pipe remained steady with active local trading, while zinc sheet scored slight gains on improved export demand.

Paper: Following the increase in indents for Scandinavian paper prices in the local market jumped to higher levels. Meanwhile Korea and Indonesia remained keen in most of the popular items. Aluminium foil was low in stock and trading centred on near-forwards. Transparent cellulose paper was a favourite with Indonesia; local stocks of Japanese origin were nearly exhausted. Tissue paper and woodfree printing were bought by Korea, but there were only a few selling offers. Local buying interest concentrated more on art printing, bond paper, duplex board, and straw board.

Industrial Chemicals: Korea showed keen interest in sodium nitrate, soda ash, magnesium sulphate, formalin, sodium bichromate, zinc chloride, oxalic acid, boric acid, linseed oil, butyl acetate and butyl alcohol. Indochina enquired for sodium sulphide, caustic soda, and calcium hypochlorite. Local demand covered paraffin wax, calcium carbonate, sodium silicate, borax granular, glycerine, potassium bichromate, cup grease and gum arabic. Prices in general were steady with the only exception of sulphur powder which dropped under heavy stock and slow export demand.

Pharmaceuticals: The market was quite active with local transactions and more enquiries from overseas. Special features were China's purchases of certain patent medicines and enquiries for antibiotics. PAS powder and santonin crystals were bought by Korea, saccharine crystals by Thailand, DDT powder by Singapore, and sulphathiazole powder by India. Penicillin preparations, phenacetin, potassium iodide, quinine ethylcarbonate, dihydrostreptomycin, saccharum lactose, amidopyrin, caffeine alkaloid, glucose-D powder, and sulfonamides were all moderately active in local trading. All prices registered very small fluctuations.

Cotton Yarn & Textiles: Continued orders from UK, Indonesia, Thailand and Vietnam kept the market very brisk. Another encouraging news was the possible relaxation of import control by Korea on cotton yarns under 40's. Trading was somewhat limited by low stocks. Hongkong yarns were firm; Indian yarns eased slightly under new arrivals; Pakistan yarns turned idle from their early briskness; Japanese yarns firmed up on low stock; while staple fibre yarns were still without improvement. Bearish trend prevailed in the piecegoods market.

Rice: The market was weakened by heavy arrivals as well as by Thailand's cut in export duty. Trading, however, was moderately active.

Sugar: Selling prices in international markets are now about 10% lower than prices scheduled by the International Sugar Conference. On the local market prices went down further under continuous arrivals while demand failed to improve. Taikoo fine alone remained steady.

Cement: Cement prices remained steady in spite of new arrivals from Japan and China. Japanese cement enjoyed active local sales to retailers and contractors; China cement was sluggish; Green Island continued active; white cement was quiet.

Marine Products: Both local and export purchases were brisk. Dried oyster and dried squid were bought by S.E. Asia; the former receded under heavy arrival while the latter improved on active demand. Japanese cuttle fish and compoy were both weak under heavy stock. Dried shrimp gained on keen local and export demand.

Sundries: Market for sundry provisions was active with price gains. Apricot kernel advanced sharply on low stock; ginkgo improved as export floor price in China had been raised; wallnut moved up due to limited supply; lotus nut geared up on purchases by Singapore and Macao. The low price of mushroom attracted more demand while vermicelli and beanstick enjoyed steady local consumption. Indonesia purchased many popular sundry articles including ink, sewing needle, zip fastener, cigarette lighter, fork and spoon, etc.

Miscellaneous: Woollen materials under keen seasonal demand enjoyed firm prices; local stocks were low and new supplies short on account of limited booking before. Window-glass continued active with substantial exports to Okinawa, Vietnam and Taiwan. Leather improved on higher cost and seasonal demand both locally and from Taiwan. Groundnut oil scores price gains with substantial turnovers as India raised the indent prices. Christmas export trade was nearly over; many shopkeepers here opined that Xmas business appeared rather slow this year.

Hongkong Products: Aluminiumware factories enjoyed good business and many of them had to run night shifts. Exports to Sweden can be expanded as many Hongkong products such as shirts, torchlights, rubber shoes and rattanwares attracted keen interest of buyers over there. Exports of textiles, torchlights and rubber shoes to Switzerland showed some increase. Enquiries for cotton piecegoods were received from the Netherlands.